Industry Canada Industrie Canada

Monthly Economic Indicators

January 2005

The "Monthly Economic Indicators" (MEI) provides a variety of economic analysis and data in a convenient format. The MEI does not interpret or evaluate government policies, and every attempt is made to present factual information in an informed and balanced manner consistent with generally accepted economic principles. It is available to all employees of Industry Canada in either hard or electronic copy, or can be accessed via the Internet at http://strategis.ic.gc.ca/epic/internet/ineas-aes.nsf/en/h_ra01898e.html

Canada

106-06732/

MONTHLY ECONOMIC INDICATORS

January 2005

HIGHLIGHTS

- ***Real Gross Domestic Product (GDP) remained unchanged in October as the weakness in the goods sector continued.***
- ***Employment rose by 34,000 in December, bringing total job creation to 72,000 in the fourth quarter and 228,000 in 2004. The unemployment rate fell to 7.0 percent, the lowest since May 2001.***
- ***Merchandise trade balance recovered in November as imports fell (10.2%) more than exports (2.9%).***
- ***These developments, combined with strong retail sales and housing market, point to continued, albeit slower, growth in the final quarter of 2004.***
- ***In the United States (U.S.), recent indicators point to continued robust growth in the fourth quarter, led again by domestic spending.***
- ***The January Consensus Forecast calls for real GDP growth of 2.8 percent in Canada and 3.6 percent in the U.S. in 2005.***
- ***The Canadian dollar has been volatile in recent weeks, trading in a range of 81-83 U.S. cents, amid uncertainties about prospects for growth, interest rates, commodity prices and the U.S. trade deficit.***

Key Monthly Economic Indicators

		% Change since last month	% Change since last year	
Real GDP ($97 B)	1,053.6	0.0	3.2	Oct.
Goods	330.0	-0.2	3.4	Oct.
Services	724.8	0.1	3.2	Oct.
Composite Index	200.1	0.0	6.8	Nov.
Employment (000's)	16,149	0.2	1.4	Dec.
Full-time	13,176	0.3	2.0	Dec.
Part-time	2,973	-0.3	-1.0	Dec.
Unemployment* (%)	7.0	7.3	7.4	Dec.
Youth*	12.8	13.2	14.0	Dec.
Adult*	5.9	6.1	6.1	Dec.
CPI inflation*	2.4	2.3	1.6	Nov.
Retail Sales ($M)	29,595	1.4	6.6	Oct.
Housing Starts (000's)**	234.4	-3.4	6.8	Dec.
Trade Balance* ($M)	7,296	5,208	4,133	Nov.
Exports	34,706	-2.9	8.6	Nov.
Imports	27,410	-10.2	-1.5	Nov.
M&E	7,676	-11.6	-4.2	Nov.

		December	
	January 12***	2004	2003
3-mth Corp. paper (%)*	2.58	2.57	2.66
Long bond yield (%)*	4.31	4.39	4.66
Canadian dollar (US¢)*	83.31	81.49	77.13

*Data in levels only – % change not reported
**Canada Mortgage and Housing Corporation
***Bank of Canada's Weekly Financial Statistics
All other data from Statistics Canada

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MONTHLY ECONOMIC INDICATORS
January 2005

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This issue uses data available as of January 12, 2005. It has been prepared by Jean-François Arsenault, Éric Chalifoux, Stéphane Crépeau, Kevin Koch, Joseph Macaluso, Sue Moore, François Poitras and François Rimbaud of the Micro-Economic Analysis Directorate, under the direction of Hossein Rostami. Translation has been provided by Lucie Larocque and Sue Hopf is responsible for production support.

Sources of information primarily include Statistics Canada, as well as the Bank of Canada, Canada Mortgage and Housing Corporation, Canadian Real Estate Association, Conference Board of Canada, U.S. Bureau of Economic Analysis, and U.S. Bureau of Labor Statistics. Unless cited otherwise, data contained in graphs and tables are derived from Statistics Canada.

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Real GDP by Industry

Economic activity remained unchanged in October...

- Real GDP at basic prices posted no growth in September and October, after robust growth in the previous three months. However, on a year-over-year basis, October's real GDP was 3.2% higher and the output of the ICT (Information and Communications Technologies) industries was 6.6% higher. In light of recent economic weakness and the further appreciation of the dollar in recent months, Canada's growth outlook for 2005 has been revised down to 2.8% in the January Consensus Forecast from 3.2% expected in November.

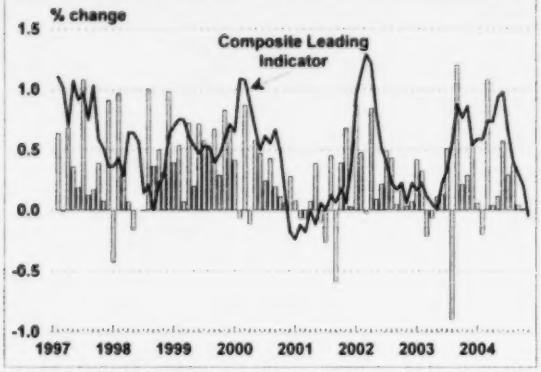
as output in construction and manufacturing declined in the goods sector...

- The output of goods was down 0.2% in October, after a 0.1% decline in September. Lower output in construction, manufacturing and utilities accounted for the decline, as mining and agriculture outputs were up. In manufacturing, only 4 of 21 major groups posted advances, as foreign demand for fabricated products was reduced in the wake of a strengthening dollar. However, production in the mining, oil & gas sector benefitted from the end of a strike in the iron mines and from increased activity in oil & gas exploration.

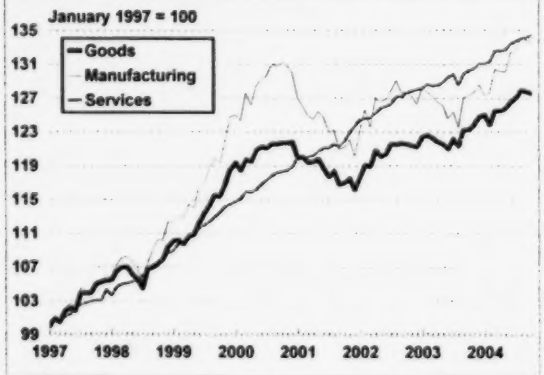
...while it continued to grow in services, led by retail

- The output of services increased 0.1% in October, the same pace as in September. The growth leaders were retail, transportation and the information industries. The retail output was propelled by motor vehicle sales, largely due to dealer incentives, and general merchandise and department store sales. However, overall growth was hampered by output declines in arts & entertainment and public administration. The National Hockey League lockout caused output of the arts & entertainment industries to drop 2.1% and strike activities by some federal government employees reduced the output of federal public administration by 1.3%.

Real GDP at Basic Prices



Real GDP by Major Sector



Real GDP at Basic Prices (1997 chained dollars)

October 2004

	$ millions	monthly change	% Change since last month	% Change since last year
Total Economy	**1,053,578**	**102**	**0.0**	**3.2**
Business Sector	**895,481**	**403**	**0.0**	**3.5**
Goods-producing	**330,025**	**-744**	**-0.2**	**3.4**
Agri., Forest, Fish, Hunt*	23,851	28	0.1	4.6
Mining & Oil & Gas Extraction	37,627	76	0.2	-0.0
Utilities	26,058	-74	-0.3	4.0
Construction	58,001	-327	-0.6	1.9
Manufacturing	184,269	-541	-0.3	4.8
Services-producing	**724,768**	**904**	**0.1**	**3.2**
Wholesale Trade	66,354	-86	-0.1	4.9
Retail Trade	60,742	540	0.9	5.0
Transportation & Warehousing	50,749	324	0.6	5.2
Information & Cultural	43,231	175	0.4	2.8
FIRE**	212,820	548	0.3	4.0
Professional***	46,414	76	0.2	2.0
Admin. & Waste Mgmt	22,142	-45	-0.2	2.3
Education	45,863	109	0.2	3.4
Health & Social	63,250	-3	-0.0	1.7
Arts, Entertain. & Recreation	9,400	-202	-2.1	-3.1
Accommodation & Food	23,476	-48	-0.2	0.9
Other	24,632	11	0.0	1.3
Public Administration	57,219	-448	-0.8	0.9

*Agriculture, Forestry, Fishing & Hunting
**Finance, Insurance & Real Estate
***Professional, Scientific & Technical services

Consumer Spending and Attitudes

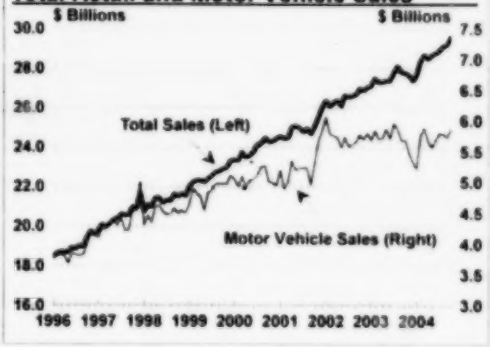
Early signs point to sustained consumption growth in the fourth quarter...

- Preliminary figures indicate that the sales of new motor vehicles should increase 6.8% in the fourth quarter, following an 8.2% decline in the third. Most of the strength occurred early in the quarter as sales are expected to have declined 2.0% in December.
- In real terms, retail sales increased 0.9% in October. Assuming no growth in November and December, real retail sales would increase 6.2% (annualized) in the fourth quarter.

...amid continued strong consumer fundamentals

- The index of consumer confidence rose slightly to 121.0 in December, remaining above its ten-year average of 113.2. While consumers seemed less enthusiastic regarding big-ticket purchases, they were generally more upbeat regarding their financial health.
- Major collective bargaining settlements provided an average base rate wage increase of 2.0% in October, higher than the 1.6% for the first 10 months of 2004. Moreover, the economy added 72,400 net jobs in the fourth quarter.
- High consumer confidence and rising income bode well for sustained consumption growth.

Total Retail and Motor Vehicle Sales



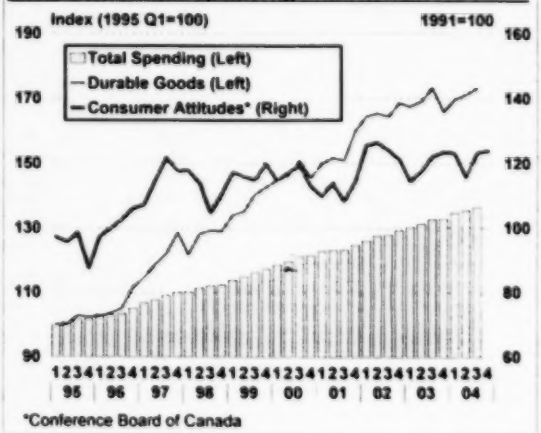
Retail Sales and Consumer Credit

October 2004	$ millions	% Change since last month	% Change since last year
Total Retail Sales (S.A.)	29,595	1.4	6.6
Food	5,698	-0.0	4.6
Drug Stores	1,939	0.6	6.7
Clothing	1,671	-1.2	2.5
Furniture	1,923	0.3	7.1
Automotive	10,090	4.0	8.4
General Merch. Stores	3,600	1.4	6.6
All other Stores	4,675	-0.7	6.5
Total ex. motor vehicles	22,458	0.9	7.7
Consumer Credit	267	1.1	11.1

Real Consumer Spending and Household Finances

$ Millions, SAAR (unless otherwise noted)	2002	2003	2004 Q2	2004 Q3
Real Consumption (97$)	601,594	620,444	638,154	642,868
% change	*3.4*	*3.1*	*2.1*	*3.0*
Durable Goods	93,099	94,923	96,213	97,345
% change	*8.3*	*2.0*	*3.5*	*4.8*
Semi-Durable Goods	54,472	56,142	58,800	60,071
% change	*3.8*	*3.1*	*3.5*	*8.9*
Non-Durable Goods	137,196	140,078	142,562	143,271
% change	*2.3*	*2.1*	*0.2*	*2.0*
Services	317,627	330,098	341,421	343,202
% change	*2.6*	*3.9*	*2.3*	*2.1*
Disposable Income	692,691	713,548	738,176	741,904
% change	*3.8*	*3.0*	*5.0*	*2.0*
Saving Rate (%)	3.2	1.4	0.5	0.0
Debt-to-Income Ratio (%)	98.1	101.6	104.0	105.1

Real Consumer Spending and Attitudes



*Conference Board of Canada

Business Investment

The energy sector drove third quarter investment...

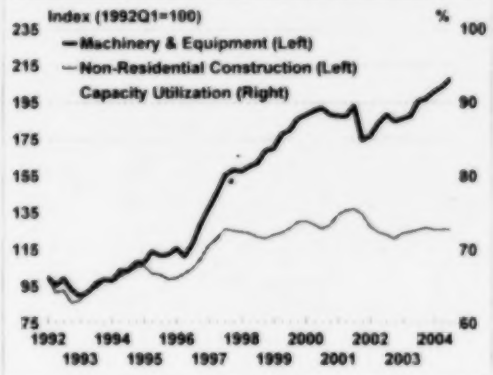
- Investment in plant and equipment rose 5.2% in the third quarter, following a 3.7% increase in the second.
  - Investment in construction grew 0.6% in the third quarter, as energy-related construction rose 8.8% while non-energy related construction declined 7.5%*.
  - Energy related M&E investment grew 15.9% in the third quarter, while non-energy related investment grew 7.2%.

...but indicators are mixed in the fourth quarter

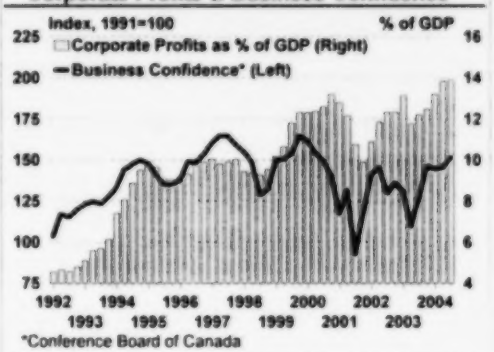
- Excluding the institutional component, real investment in non-residential building construction rose 3.5% in the fourth quarter, a partial recovery from the 4.0% decline in the third.
- Following a 3.1% increase in October, the volume of M&E imports declined 8.0% in November. Assuming no growth in December, imports of M&E will fall 10.9% in the fourth quarter.
- The January Consensus Forecast expects M&E investment to grow 9.4% in 2005, following an estimated growth of 7.7% in 2004.

* Data from the Conference Board of Canada

Investment in Plant and Equipment



Corporate Profits & Business Confidence



*Conference Board of Canada

Business Investment and Corporate Finances

$ Millions, SAAR (unless otherwise noted)

	2002	2003	2003 Q4	2004 Q1	2004 Q2	2004 Q3
BUSINESS INVESTMENT						
Machinery & Equipment (1997$)	82,715	86,441	88,920	90,688	91,906	93,735
% change	*-1.2*	*4.5*	*3.2*	*8.2*	*5.5*	*8.2*
Non-residential Construction (1997$)	44,493	44,928	45,501	45,100	45,197	45,262
% change	*-8.3*	*1.0*	*3.5*	*-3.5*	*0.9*	*0.6*
Capacity Utilization (%, Non-farm goods)	83.0	82.9	83.8	83.9	84.7	85.7
Capacity Utilization (Mfg. sector)	83.3	82.9	84.2	84.6	86.4	88.5
CORPORATE FINANCES & ATTITUDES						
Corporate Operating Profits	149,969	172,118	178,676	194,124	205,244	205,320
% change	*4.8*	*14.8*	*17.7*	*39.3*	*25.0*	*0.1*
Profits - Non-financial industries	115,798	128,203	131,604	142,680	155,400	154,448
% change	*8.8*	*10.7*	*19.5*	*38.2*	*40.7*	*-2.4*
Profits - Financial industries	34,169	43,915	47,072	51,444	49,840	50,876
% change	*-6.8*	*28.5*	*13.0*	*42.7*	*-11.9*	*8.6*
Business Credit	890,038	904,934	911,271	920,854	934,518	950,046
% change	*3.8*	*1.7*	*2.5*	*4.3*	*6.1*	*6.8*

Housing

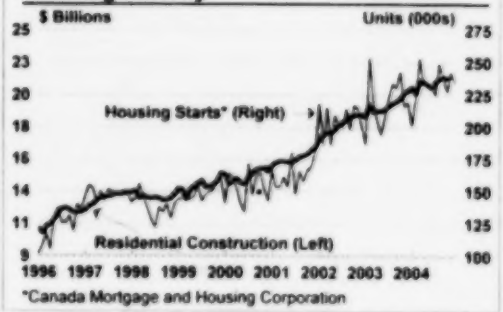
Housing starts were down in the fourth quarter, but activity was strong in 2004

- Housing starts decreased from 242,600 in November to 234,400 in December (seasonally adjusted & annualized), largely due to multiple starts. Declines were posted in all regions, except in British Columbia where starts were unchanged and Atlantic Canada where they increased.
- This was a strong finish to 2004 as housing starts rose 6.7% in the year to 233,000, a 17-year high. Starts were down 1.0% in the fourth quarter relative to the third.
- Housing starts are expected to fall to 206,000 in 2005, according to the January Consensus Forecast.

Other indicators also point to a slowing housing market

- In November, the value of residential building permits issued rose to $3.1 billion, up 3.5% from October. On a year-to-date basis, a 15.2% increase in residential construction intentions is propelling the value of building permits to a record high in 2004.
- Sales of existing homes through MLS have been trending lower since March 2004 and according to CMHC, they are expected to slow in 2005. This has helped to moderate house price increases. The annual rate of increases in the New Housing Price Index has slowed from 6.2% in June to 5.6% in October and to 5.3% in December.

Housing Activity



*Canada Mortgage and Housing Corporation

Monthly Housing Indicators

	Levels	Change since Last month	Change since Last year
Residential Construction (1)* ($97M, basic prices)	21,408	-0.5%	7.2%
Building Permits, $M (2)*	3,150	3.5%	11.7%
Sales of Existing Homes (3)** (# of units)	25,595	-434	-147
Housing Starts, (3)*** (# of units, SAAR)	234,400	-8,200	15,000
Newfoundland & Labrador	2,300	-100	-300
Prince Edward Island	800	-200	-100
Nova Scotia	5,600	1,300	-1,100
New Brunswick	4,000	700	-500
Quebec	60,800	-2,600	5,400
Ontario	78,700	-3,700	-3,100
Manitoba	4,300	-500	300
Saskatchewan	3,800	-1,000	1,300
Alberta	39,100	-2,100	4,900
British Columbia	35,000	0	8,200

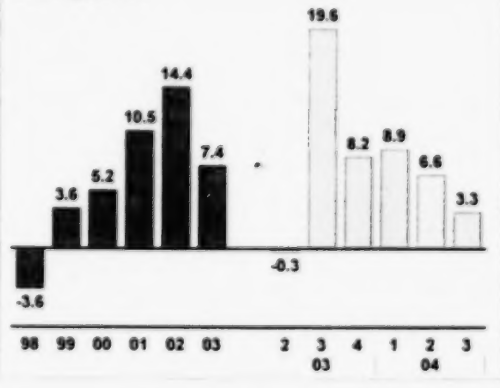
1 - October data; 2 - November data; 3 - December data
Sources: *Statistics Canada; **Canadian Real Estate Association; ***Canada Mortgage and Housing Corporation

Real Investment in Residential Structures

$97 Millions, SAAR (unless otherwise noted)	2002	2003	2004 Q2	2004 Q3
Residential Construction	58,133	62,452	67,247	67,792
% change	*14.4*	*7.4*	*6.6*	*3.3*
New Housing	28,900	30,678	32,995	33,377
% change	*23.2*	*6.2*	*3.9*	*4.7*
Alterations & Improvements	20,600	22,619	24,100	24,808
% change	*4.7*	*9.8*	*2.1*	*12.3*
Ownership & Transfer Costs	8,639	9,204	10,148	9,728
% change	*11.5*	*6.5*	*25.1*	*-15.6*

Growth in Real Residential Construction

% change, SAAR



Trade and Competitiveness

Imports declined more than exports in November...

- Imports declined 10.2% in November following a decrease of 0.6% in October. Imports decreased in all principal groupings, led by industrial goods & materials, energy products, and agricultural & fishing products. Import volumes decreased 7.1% and prices fell 3.1%.

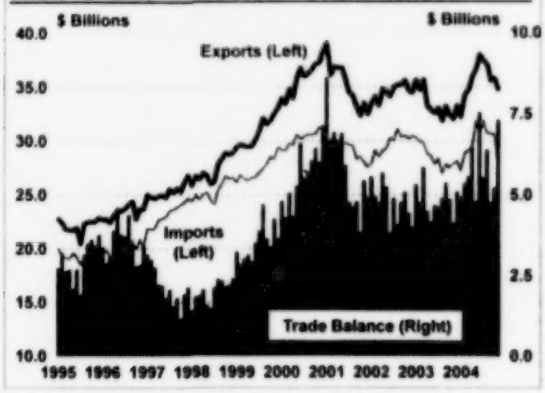
- Merchandise exports decreased 2.9% in November, entirely due to lower prices, after increasing 0.8% in October. The drop was mostly concentrated in exports of automotive and energy products. Exports to all major trading areas except Japan declined. Overall, export volumes edged up 0.2% while prices decreased 3.1%.

...pushing the trade surplus higher

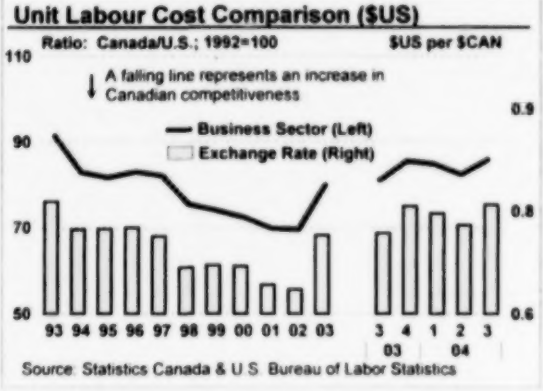
- Canada's trade surplus rose by $2.1 billion to $7.3 billion, the third highest since 1997. The trade surplus with the U.S. increased to $10.3 billion and the trade deficit with other countries edged down to $3.0 billion.

- Based on October and November data, real merchandise trade is likely to contribute positively to economic growth in the fourth quarter, after dragging growth down in the third.

Merchandise Trade Flows and Balance



Unit Labour Cost Comparison ($US)



Source: Statistics Canada & U.S. Bureau of Labor Statistics

Merchandise Trade

November 2004	Levels ($ millions)		Year-to-date ($ millions)		Change ($M)	% Change	
	October 2004	November 2004	Jan.-Nov. 2003	Jan.-Nov. 2004	Oct. to Nov. 2004	Oct. to Nov. 2004	Jan.-Nov. 2003 to Jan.-Nov. 2004
Exports	**35,743**	**34,706**	**366,789**	**391,828**	**-1,037**	**-2.9**	**6.8**
to United States	29,139	28,513	303,175	320,290	-626	-2.1	5.6
Imports	**30,535**	**27,410**	**313,699**	**327,927**	**-3,125**	**-10.2**	**4.5**
from United States	20,708	18,198	220,180	225,342	-2,510	-12.1	2.3
Trade Balance	**5,208**	**7,296**	**53,090**	**63,901**	**2,088**		
with United States	8,431	10,315	82,995	94,948	1,884		
Exports by Commodity							
Agriculture/Fishing Products	2,431	2,449	26,785	28,451	18	0.7	6.2
Energy Products	6,174	5,931	55,724	62,275	-243	-3.9	11.8
Forestry Products	3,133	3,023	31,556	35,961	-110	-3.5	14.0
Industrial Goods & Materials	6,439	6,324	60,650	70,426	-115	-1.8	16.1
Machinery & Equipment	7,450	7,336	81,541	84,004	-114	-1.5	3.0
Automotive Products	7,452	6,950	79,959	82,200	-502	-6.7	2.8
Other Consumer Goods	1,389	1,367	15,755	15,805	-22	-1.6	0.3
Imports by Commodity							
Agriculture/Fishing Products	1,827	1,610	19,764	19,368	-217	-11.9	-2.0
Energy Products	2,167	1,902	17,883	21,603	-265	-12.2	20.8
Forestry Products	260	254	2,781	2,875	-6	-2.3	3.4
Industrial Goods & Materials	6,370	5,570	59,758	65,898	-800	-12.6	10.3
Machinery & Equipment	8,687	7,676	90,167	94,709	-1,011	-11.6	5.0
Automotive Products	6,257	5,712	70,175	69,889	-545	-8.7	-0.4
Other Consumer Goods	4,039	3,666	42,487	42,991	-373	-9.2	1.2

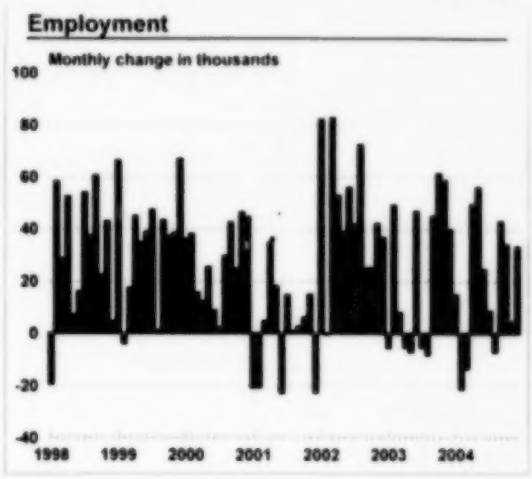
Employment and Unemployment

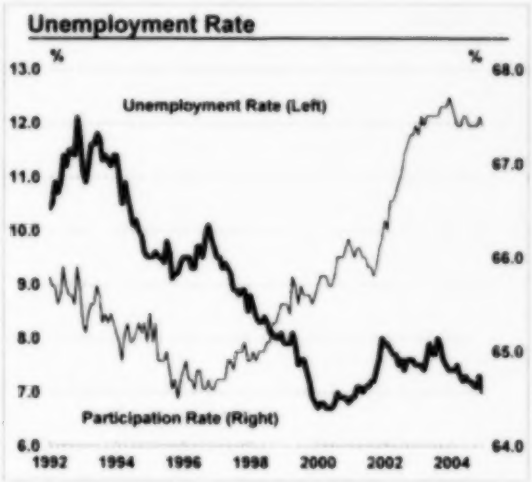
Employment rose further in December...

- Employment went up 34,000 in December, bringing job gains in 2004 to 228,000 (1.4%). More than 1 million net jobs have been created over the last three years.
- Employment gains in December were all in full-time (41,000). In 2004, 258,000 full-time jobs were created while 30,000 part-time positions were lost.
- Youth employment edged up 3,000 in December, and increased 26,000 (1.1%) in 2004.
- Employment rose in both the private (31,000) and public (21,000) sectors, leaving them up 91,000 (0.9%) and 88,000 (2.9%), respectively, in 2004.
- Both the participation (67.4%) and the employment rates (62.7%) remained near their historical peaks.

...and the unemployment rate declined to 7.0%

- The unemployment rate fell 0.3 percentage point to 7.0%, the lowest rate since May 2001.
- The youth unemployment rate fell 0.4 percentage point to 12.8%, as employment increased and less youth sought jobs.





Labour Force Trends

(in thousands)	Levels			Change since			% Change since	
	2003 December	2004 November	2004 December	last month	last year	year-to-date	last month	last year
Employment	15,920.7	16,115.3	16,148.8	33.5	228.1	228.1	0.2	1.4
Full-time	12,917.2	13,134.4	13,175.6	41.2	258.4	258.4	0.3	2.0
Part-time	3,003.4	2,981.0	2,973.2	-7.8	-30.2	-30.2	-0.3	-1.0
Youth 15-24	2,418.8	2,441.7	2,445.1	3.4	26.3	26.3	0.1	1.1
Adult 25+	13,501.8	13,673.7	13,703.7	30.0	201.9	201.9	0.2	1.5
Self-employed	2,437.4	2,504.0	2,485.8	-18.2	48.4	48.4	-0.7	2.0
Unemployment	1,266.8	1,261.7	1,224.0	-37.7	-42.8	-42.8	-3.0	-3.4
Unemployment Rate	7.4	7.3	7.0	-0.3	-0.4	-0.4		
Youth 15-24	14.0	13.2	12.8	-0.4	-1.2	-1.2		
Adult 25+	6.1	6.1	5.9	-0.2	-0.2	-0.2		
Labour Force	17,187.4	17,377.0	17,372.8	-4.2	185.4	185.4	-0.0	1.1
Participation Rate	67.7	67.5	67.4	-0.1	-0.3	-0.3		
Employment Rate	62.7	62.6	62.7	0.1	0.0	0.0		

Industry Overview

Employment recovered in the Goods sector...

- Employment in the Goods sector rose 18,000 in December, erasing November's decline. Employment increased in all sectors with natural resources (7,000), agriculture (6,000) and construction (4,000) recording the highest gains. Over the year, employment rose 30,000 (0.7%), following a gain of 13,000 (0.3%) in 2003. Gains were concentrated in the construction (61,000) and natural resources (12,000) sectors.

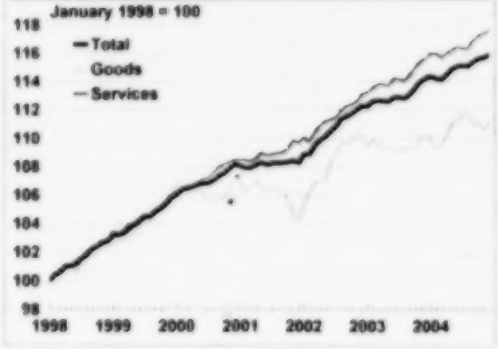
- Manufacturing employment rose marginally (1,000) in December, following four consecutive monthly declines during which 52,000 jobs were lost. A higher Canadian dollar and a substantial increase in crude oil prices were major factors underlying job losses in 2004.

...and rose further in the Services sector

- Employment rose 16,000 in the Services sector, following a 21,000 increase in November. The highest gains were in professional, scientific and technical (15,000), accommodation & food (12,000) and educational services (10,000). The largest loss was in trade (20,000).

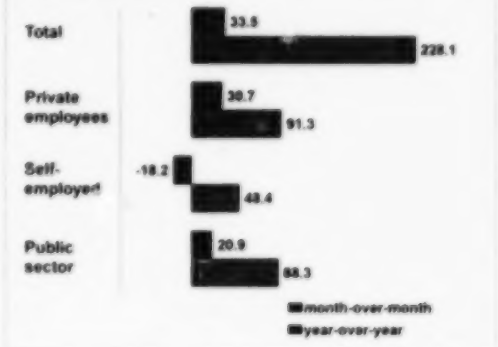
- In 2004, employment in the Services sector rose 199,000 (1.7%), following a 265,000 (2.3%) increase in 2003. Job gains were fairly widespread, notably in trade (59,000), professional, scientific and technical (59,000) and FIRE* (56,000). Despite high gains in December, the largest job loss was posted in accommodation & food (13,000).

Employment by Major Sector



Employment Growth by Worker Category

December 2004 (thousands)



Industrial Employment Trends

(in thousands)	Levels			Change since			% Change since	
	2003 December	2004 November	2004 December	last month	last year	year-to-date	last month	last year
Goods-producing	4,015.3	4,027.2	4,044.9	17.7	29.6	29.6	0.4	0.7
Agriculture	346.5	327.9	333.7	5.8	-12.8	-12.8	1.8	-3.7
Natural Resources*	296.0	300.7	307.6	6.9	11.6	11.6	2.3	3.9
Utilities	130.7	127.7	127.9	0.2	-2.8	-2.8	0.2	-2.1
Construction	957.1	1,014.1	1,017.7	3.6	60.6	60.6	0.4	6.3
Manufacturing	2,285.0	2,256.8	2,258.0	1.2	-27.0	-27.0	0.1	-1.2
Services-producing	11,905.4	12,088.1	12,103.9	15.8	198.5	198.5	0.1	1.7
Trade	2,477.4	2,556.1	2,536.4	-19.7	59.0	59.0	-0.8	2.4
Transportation*	782.2	785.6	786.4	0.8	4.2	4.2	0.1	0.5
FIRE*	956.7	1,012.8	1,013.0	0.2	56.3	56.3	0.0	5.9
Professional/Scientific	984.5	1,028.8	1,043.6	14.8	59.1	59.1	1.4	6.0
Business/Building	637.6	629.5	630.6	1.1	-7.0	-7.0	0.2	-1.1
Educational Services	1,061.1	1,067.1	1,077.3	10.2	16.2	16.2	1.0	1.5
Health Care/Social Assistance	1,732.2	1,760.3	1,761.4	1.1	29.2	29.2	0.1	1.7
Information/Culture/Recreation	717.0	718.5	712.8	-5.7	-4.2	-4.2	-0.8	-0.6
Accommodation & Food	1,029.5	1,004.1	1,016.4	12.3	-13.1	-13.1	1.2	-1.3
Other Services	699.6	701.2	700.6	-0.6	1.0	1.0	-0.1	0.1
Public Administration	827.6	824.2	825.5	1.3	-2.1	-2.1	0.2	-0.3

*Natural Resources: Forestry, Fishing, Mining, Oil & Gas; Transportation includes warehousing; FIRE: Finance, Insurance, Real Estate & Leasing

Provincial Overview

Most provinces posted job gains in December...

- British Columbia (B.C.) registered the highest employment increase (17,000) among provinces in December. Job gains were mainly in business & building services and health care & social assistance.

- Employment also rose in Ontario (9,000), Newfoundland & Labrador (5,000), Alberta (4,000), New Brunswick (3,000) and Saskatchewan (1,000). Quebec lost 4,000 jobs, as job losses in services more than offset gains in the goods sector.

- In 2004, all provinces posted employment gains. The Atlantic provinces reported the highest growth (2.5%), resulting from strong job creation in the first half of the year. Employment growth was also strong in B.C. (1.9%), mainly in the construction sector. Ontario's employment rose 1.5% while employment growth was below the national average in Quebec (1.0%) and Alberta (0.9%).

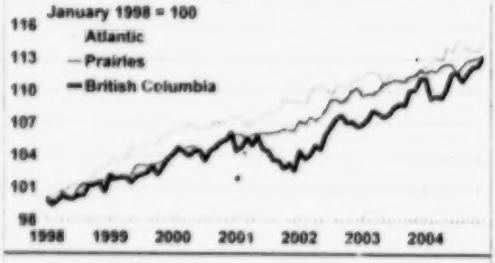
...and the unemployment rate decreased in six provinces

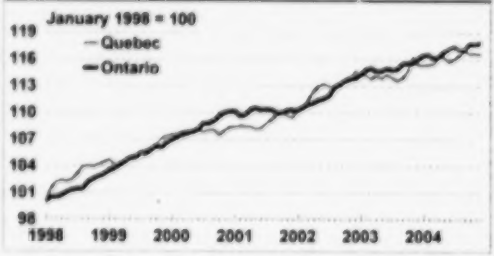
- Strong employment gains pushed B.C.'s unemployment rate to 6.1% in December, the lowest rate since June 1981. Employment growth also pushed down the unemployment rate in Alberta to 4.5%, the lowest among provinces.

- Quebec's unemployment rate fell to 8.5% as less people sought jobs. Higher employment in Ontario pushed down its unemployment rate 0.2 percentage point to 6.8%.

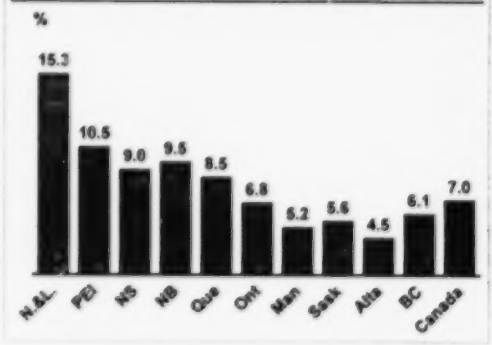
- The unemployment rate decreased to 15.3% and 9.5% in Newfoundland & Labrador and New Brunswick, respectively.

Regional employment patterns





Unemployment Rates -- December 2004



Provincial Employment and Unemployment Trends

	Employment (thousands)					Unemployment Rate (%)		
	Levels	Change since last month		Change since last year		Levels	Change since	
	2004 December	(000's)	%	(000's)	%	2004 December	last month	last year
Canada	16,148.8	33.5	0.2	228.1	1.4	7.0	-0.3	-0.4
Newfoundland & Labrador	221.2	4.6	2.1	5.6	2.6	15.3	-1.2	-2.7
Prince Edward Island	71.7	-0.1	-0.1	1.5	2.1	10.5	0.0	0.4
Nova Scotia	447.7	-0.3	-0.1	8.5	1.9	9.0	0.0	0.0
New Brunswick	357.3	3.1	0.9	11.2	3.2	9.5	-0.4	-0.4
Quebec	3,718.9	-3.6	-0.1	37.0	1.0	8.5	-0.4	-0.9
Ontario	6,380.3	8.6	0.1	94.5	1.5	6.8	-0.2	0.1
Manitoba	578.9	-1.0	-0.2	8.3	1.5	5.2	0.1	0.2
Saskatchewan	495.6	1.0	0.2	7.2	1.5	5.6	0.2	-0.1
Alberta	1,766.9	3.7	0.2	15.4	0.9	4.5	-0.1	-0.3
British Columbia	2,110.2	17.3	0.8	38.8	1.9	6.1	-0.3	-0.7

Consumer and Commodity Prices

Inflation was 2.4% in November...

- On a year-over-year basis, the increase in the Consumer Price Index (CPI) was 2.4% in November, up slightly from 2.3% in October. An increase in gasoline prices (17.7%) as well as fuel oil (42.6%) and home renovation costs (6.4%) contributed most to the rise. Excluding energy, inflation also edged up to 1.6% in November from 1.5% in October.

- Inflation rose in all provinces except Newfoundland & Labrador, Quebec, and British Columbia. Alberta (1.9%) remained the only province with inflation below 2.0% in November.

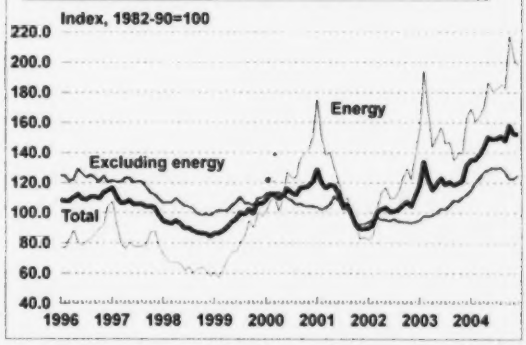
- On a month-to-month basis (seasonally adjusted), the CPI rose 0.3% following a 0.4% rise in October.

- The year-over-year increase in commodity prices slowed to 15.7% in December from 25.8% in November. This was due to a moderation in energy price inflation which fell to 20.3%, the smallest increase in six months. On a monthly basis, commodity prices fell 0.2% following a 3.5% decline in November. Excluding energy prices, commodity prices fell 2.4% from November.

...and the "core" rate rose to 1.6%

- The "core" rate of inflation, which excludes the eight most volatile components and indirect taxes, rose to 1.6% in November from 1.4% in October, below the midpoint of the 1%-3% official target range.

Commodity Prices ($US basis)

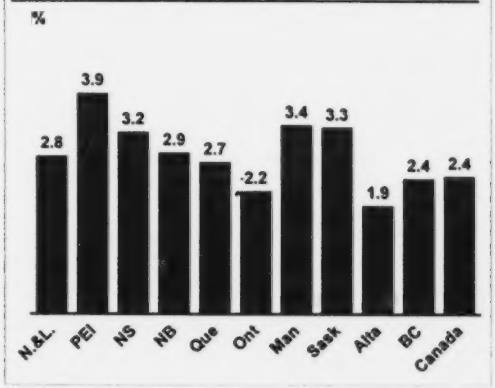


Consumer Prices

November 2004	Index (1992=100)	% Change since last month	% Change since last year
All items CPI	125.7	0.4	2.4
Food	126.6	1.0	3.5
Shelter	122.2	0.3	3.3
Household operations	115.1	0.1	0.2
Clothing & Footwear	103.2	-2.1	-1.0
Transportation	146.7	1.5	4.1
Health & Personal Care	118.8	-0.3	0.7
Recreation, Educ. & Reading	127.4	-0.8	-0.1
Alcohol & Tobacco	144.7	0.1	5.2
Excl. 8 Most Volatile/Indirect Taxes	125.3	0.5	1.6
Energy	151.7	-2.1	12.0
Commodity Prices (December 2004)			
Index, 1982-90=100	152.2	-0.2	15.7
Excluding Energy	125.1	2.0	11.7
Energy	197.7	-2.4	20.3

Consumer Price Index

Provincial CPI Inflation -- November 2004



Short-term and Long-term Interest Rates

Movements in the Canadian dollar are impacting the Bank of Canada's decisions

- Concerns about the economic impact of the stronger Canadian dollar led the Bank of Canada to leave its target for the overnight rate unchanged at 2.5% on December 7. The next rate announcement date is January 25 and analysts expect that, due to moderating growth prospects, the Bank may again refrain from increasing rates. In the United States, the Federal Reserve recently expressed renewed concerns about rising inflation. This, together with firm economic expansion, suggests the Fed will raise its fed funds rate again on February 2 after raising it by 25 basis points (bps) to 2.25% on December 14.

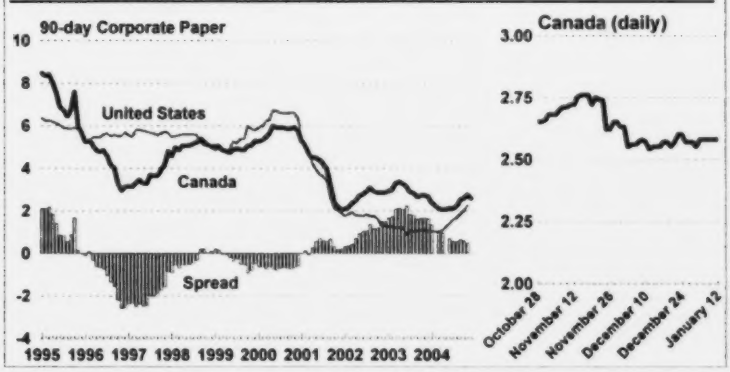
- With Canadian short-term rates steady over the past month in the 2.55%-2.60% range and U.S. rates trending up, the rate differential has narrowed to about 5 bps on January 12, down from a recent spread of nearly 70 bps in September 2004.

Long-term yield spread narrowed in January

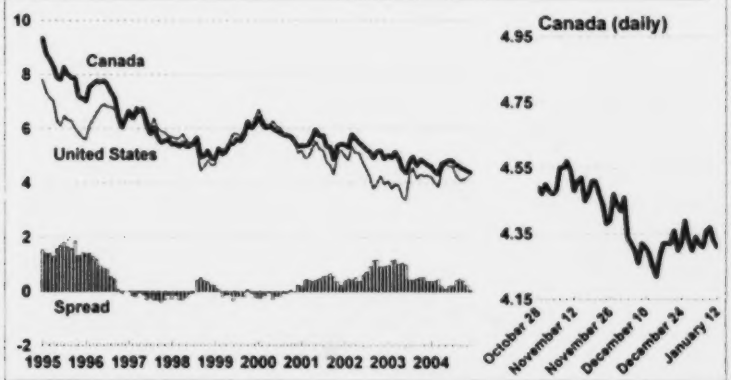
- Expectations of rising interest rates in the U.S. have also affected long-term bond yields. In the U.S., 10-year yields were 4.25% on January 12, up from 4.13% in mid-December, but down compared to 4.40% in early December. After falling in November and December, yields in Canada steadied around 4.35% in recent weeks and were 4.31% on January 12, resulting in the rate spread narrowing to under 10 bps.

- One-year mortgage rates were 4.80% on January 12 and were unchanged since mid-December. Five-year mortgage rates eased to 6.05% on January 12 and were also unchanged from one month ago.

Short-term Interest Rates



Long-term Bond Yields



Key Market Rates

(end of period)	90-day Corporate Paper	*spread against U.S.*	Long Bond Yield	*spread against U.S.*
2003	2.66	1.62	4.66	0.39
2004	2.57	N/A	4.39	0.06
July	2.12	0.55	4.82	0.21
August	2.22	0.55	4.68	0.42
September	2.50	0.65	4.58	0.48
October	2.60	0.59	4.52	0.41
November	2.74	0.49	4.44	0.24
December	2.57	N/A	4.39	0.06
Jan. 12 *	2.58	0.08	4.31	0.06

A positive spread indicates that Canadian rates are above their U.S. counterparts. * Bank of Canada's Weekly Financial Statistics

Key Lending Rates

(end of period)	Overnight Rate	Prime Lending Rate	Mortgage Rate 1 year	Mortgage Rate 5 year
2003	2.75	4.50	4.75	6.45
2004	2.50	4.25	4.80	6.05
July	2.00	3.75	4.60	6.55
August	2.00	3.75	4.40	6.30
September	2.25	4.00	4.80	6.30
October	2.50	4.25	4.90	6.40
November	2.50	4.25	5.00	6.30
December	2.50	4.25	4.80	6.05
Jan. 12 *	2.50	4.25	4.80	6.05

* Bank of Canada's Weekly Financial Statistics

U.S. Economic Trends

Economic growth should remain robust in the fourth quarter...

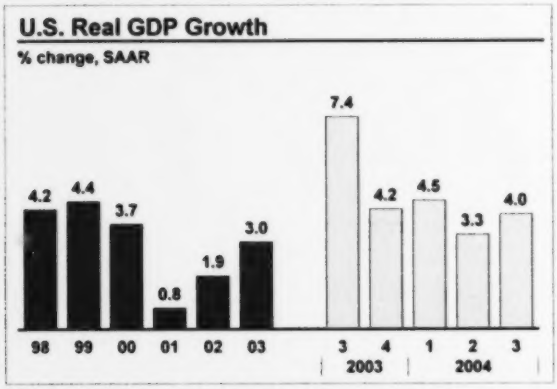
- Final estimates confirmed that real GDP growth increased from 3.3% in the second quarter to 4.0% in the third quarter, reflecting stronger domestic demand and a lesser drag from net exports. Meanwhile, recent indicators point to solid growth in the fourth quarter. The Institute of Supply Management (ISM) manufacturing and non-manufacturing indices rose to 58.6 and 63.1 in December, respectively, suggesting an expanding economy. Moreover, if nothing changes in December, fourth quarter industrial production would be up 3.3% from its third quarter level as manufacturing output and capacity utilization enjoyed post-hurricane rebounds in October and November. On the consumer side, average real spending in October and November was 3.1% above the third quarter level (annualized). This and a jump in December auto sales indicate strong consumer spending in the fourth quarter.

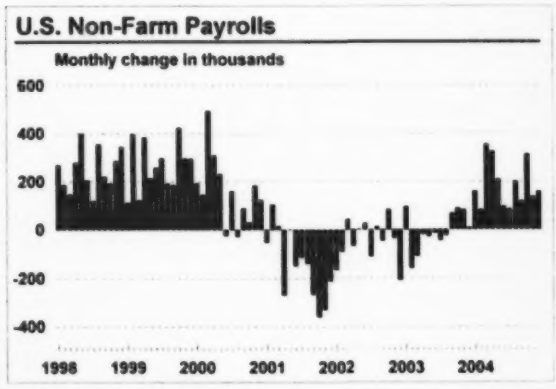
...and prospects remain good for 2005

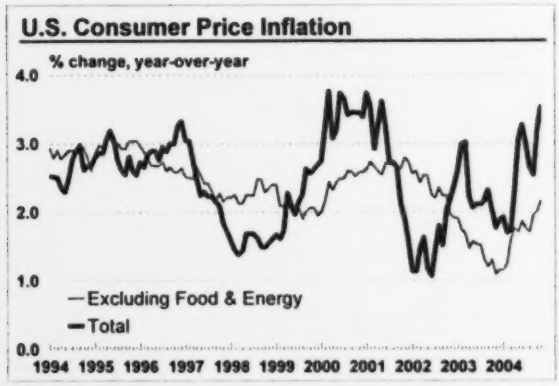
- According to the January Consensus Forecast, real GDP is expected to grow by 3.6% in 2005, down from an estimated growth of 4.4% in 2004. Rising interest rates are expected to moderate growth in household spending and business investment, although domestic demand will remain the main source of growth. The depreciation of the U.S. dollar is only expected to prevent the current account deficit from widening much further--the deficit is forecast to be US$686 billion in 2005, compared to an estimated deficit of US$650 billion in 2004.

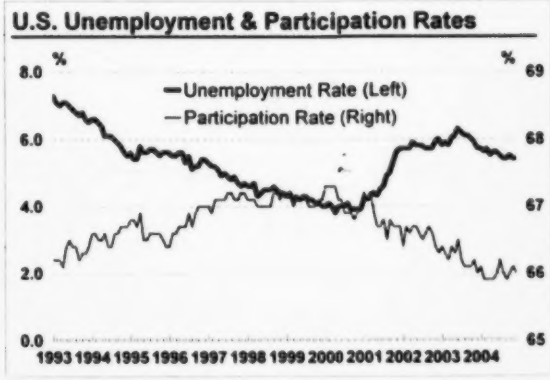
U.S. job creation picked up in 2004

- Following three years of net job losses, U.S. employment increased by 1.7% (or 2.2 million) from December 2003 to December 2004, the largest percentage increase since 1999. Helped by the buoyant housing market, construction employment increased by 268,000 and led the pack in goods-producing industries. Net job creation totalled near 600,000 in professional and business services and 342,000 in the health sector. Overall, analysts expect similar net job creation figures in 2005.









Source: U.S. Bureau of Economic Analysis & U.S. Bureau of Labor Statistics

COMING UP

Key Future Data Releases and Planned Events

CANADA

Real GDP by Industry - November	January 31
Labour Force Survey - January	February 4
Canadian International Merchandise Trade - December	February 10
Monthly Survey of Manufacturing - December	February 14
Consumer Price Index - January	February 22
Financial Statistics for Enterprises - 4th Quarter 2004	February 25
Balance of International Payments - 4th Quarter 2004	February 25
National Economic and Financial Accounts - 4th Quarter 2004	February 28
Key Policy Interest Rate Announcement	March 2

UNITED STATES

GDP - 4th Quarter 2004 (advance)	January 28
Federal Open Market Committee Meeting	February 1/2
The Employment Situation - January	February 4
International Trade in Goods and Services - December	February 10
Consumer Price Index - January	February 23

Note: The January 2005 MEI uses data available as of January 12, 2005

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Monthly Economic Indicators

February 2005

The "Monthly Economic Indicators" (MEI) provides a variety of economic analysis and data in a convenient format. The MEI does not interpret or evaluate government policies, and every attempt is made to present factual information in an informed and balanced manner consistent with generally accepted economic principles. It is available to all employees of Industry Canada in either hard or electronic copy, or can be accessed via the Internet at http://strategis.ic.gc.ca/epic/internet/ineas-aes.nsf/en/h_ra01898e.html

Canada

MONTHLY ECONOMIC INDICATORS

February 2005

HIGHLIGHTS

- ***Real Gross Domestic Product (GDP) rose 0.2% in November, largely reflecting strong growth in wholesale trade and in the oil, gas and mining industry.***
- ***Employment declined by 5,700 in January, as 47,900 net job losses in the public sector more than offset a 42,300 net job creation in the private sector. The unemployment rate, however, remained at 7.0%.***
- ***Real merchandise exports fell 0.5% in the fourth quarter while imports rose 2.1%, in part resulting from a substantial increase in imports of machinery and equipment (M&E).***
- ***These developments suggest economic growth moderated in the fourth quarter from 3.2% (annual rate) in the third.***
- ***In the United States (U.S.), real GDP growth slowed to 3.1% (advance estimate) in the fourth quarter from 4.0% in the third, with domestic demand remaining strong.***
- ***The Canadian dollar has trended down in recent weeks, closing at US¢80.83 on February 16, in part due to Canadian short-term interest rates falling below their U.S. counterparts.***

Key Monthly Economic Indicators

		% Change since last month	% Change since last year	
Real GDP ($97 B)	1,056.2	0.2	3.2	Nov.
Goods	330.8	0.1	3.2	Nov.
Services	726.6	0.3	3.2	Nov.
Composite Index	200.9	0.2	6.6	Dec.
Employment (000's)	16,057	0.0	1.4	Jan.
Full-time	13,097	0.0	1.7	Jan.
Part-time	2,961	-0.1	0.3	Jan.
Unemployment* (%)	7.0	7.0	7.3	Jan.
Youth*	12.8	12.7	13.8	Jan.
Adult*	5.8	5.9	6.1	Jan.
CPI inflation*	2.1	2.4	2.0	Dec.
Retail Sales ($M)	29,530	-0.1	6.7	Nov.
Housing Starts (000's)**	203.7	-13.8	1.6	Jan.
Trade Balance* ($M)	5,209	5,488	5,089	Dec.
Exports	36,482	2.6	9.8	Dec.
Imports	31,273	4.0	11.2	Dec.
M&E	8,609	3.2	6.7	Dec.

		January	
	February 16 ***	2005	2004
3-mth Corp. paper (%)*	2.60	2.56	2.37
Long bond yield (%)*	4.18	4.21	4.61
Canadian dollar (US¢)*	80.83	80.57	75.48

*Data in levels only – % change not reported
**Canada Mortgage and Housing Corporation
***Bank of Canada's Weekly Financial Statistics
All other data from Statistics Canada

The "Monthly Economic Indicators" (MEI) provides a variety of economic analysis and data in a convenient format. The MEI does not interpret or evaluate government policies, and every attempt is made to present factual information in an informed and balanced manner consistent with generally accepted economic principles. It is available to all employees of Industry Canada in either hard or electronic copy, or can be accessed via the Internet at http://strategis.ic.gc.ca/epic/internet/ineas-aes.nsf/en/h_ra01898e.html

MONTHLY ECONOMIC INDICATORS
February 2005

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This issue uses data available as of February 16, 2005. It has been prepared by Jean-François Arsenault, Éric Chalifoux, Stéphane Crépeau, Kevin Koch, Sue Moore and François Rimbaud of the Micro-Economic Analysis Directorate, under the direction of Hossein Rostami. Translation has been provided by Lucie Larocque and Sue Hopf is responsible for production support.

Sources of information primarily include Statistics Canada, as well as the Bank of Canada, Canada Mortgage and Housing Corporation, Canadian Real Estate Association, Conference Board of Canada, U.S. Bureau of Economic Analysis, and U.S. Bureau of Labor Statistics. Unless cited otherwise, data contained in graphs and tables are derived from Statistics Canada.

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Real GDP by Industry

Economic activity improved slightly in November...

- Real GDP at basic prices rose 0.2% in November, following two months of little growth. However, this renewed growth concealed continued weakness in export-oriented sectors. On a year-over-year basis, November's real GDP grew 3.2%. Still, average real GDP in October and November was only 1.3% higher than in the third quarter (annual rate), down from a rise of 3.9% in the third quarter. The February Consensus Forecast expects real GDP to rise 2.8% in 2005, following an estimated growth of 2.7% in 2004.

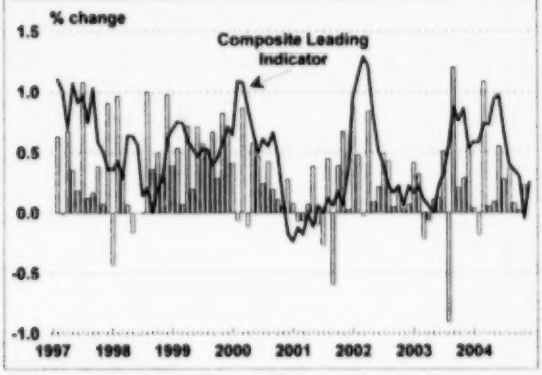
as the goods sector reported mixed results...

- Goods production was up a mere 0.1% in November after declining 0.2% in October. Strong performance in the mining sector (0.8%) and utilities (0.3%) accounted for the rise. These advances were somewhat offset by a decline in agriculture (0.4%) and a stagnant output in both manufacturing and construction. Oil and gas extraction benefited from higher energy prices while the manufacturing industry, which has not grown since August, continued to adjust to the surge in the Canadian dollar.

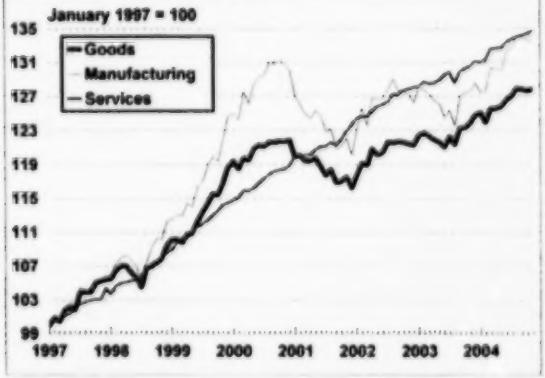
...while the service sector continued to grow

- Service output increased 0.3% in November after edging up 0.1% in October. Growth was driven by robust wholesale trade (1.5%) and a recovery in public administration (0.7%). Wholesalers reaped the benefits of a rising currency in the form of cheaper machinery and electronic equipment while public administration bounced back as federal strike activities ended. However, arts, entertainment and recreation declined substantially (3.3%), due in part to the National Hockey League lock-out. Moreover, transportation & warehousing output, which relies heavily on trade with the U.S., was down 0.5%.

Real GDP at Basic Prices



Real GDP by Major Sector



Real GDP at Basic Prices (1997 chained dollars)

November 2004	$ millions	monthly change	% Change since last month	% Change since last year
Total Economy	**1,056,158**	**2,439**	**0.2**	**3.2**
Business Sector	**897,414**	**1,762**	**0.2**	**3.5**
Goods-producing	**330,810**	**474**	**0.1**	**3.2**
Agri., Forest, Fish, Hunt*	23,760	-93	-0.4	2.7
Mining & Oil & Gas Extraction	37,938	297	0.8	1.8
Utilities	26,296	77	0.3	2.7
Construction	58,068	-10	-0.0	0.6
Manufacturing	184,377	50	0.0	4.6
Services-producing	**726,567**	**1,989**	**0.3**	**3.2**
Wholesale Trade	67,498	1,012	1.5	5.7
Retail Trade	60,344	-252	-0.4	4.9
Transportation & Warehousing	50,307	-232	-0.5	3.4
Information & Cultural	43,370	213	0.5	3.4
FIRE**	213,913	989	0.5	4.4
Professional***	46,437	-4	-0.0	2.0
Admin. & Waste Mgmt	22,174	44	0.2	2.4
Education	46,099	323	0.7	2.7
Health & Social	63,015	6	0.0	1.3
Arts, Entertain. & Recreation	9,057	-306	-3.3	-3.6
Accommodation & Food	23,497	-113	-0.5	0.4
Other	24,594	16	0.1	1.1
Public Administration	57,905	395	0.7	1.8

*Agriculture, Forestry, Fishing & Hunting
**Finance, Insurance & Real Estate
***Professional, Scientific & Technical services

Consumer Spending and Attitudes

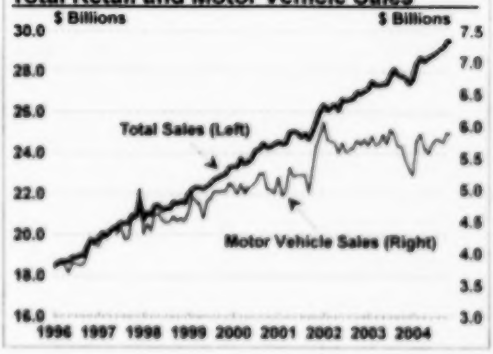
Consumer spending grew in the fourth quarter...

- Assuming no growth in December, real retail sales would increase 4.2% (annualized) in the fourth quarter. Real retail sales declined 0.4% in November following a 0.7% increase in October.
- Despite declining in both November and December, sales of new motor vehicles increased 4.5% in the fourth quarter. Moreover, the average price of vehicles sold in the fourth quarter was 3.6% higher than in the third quarter.
- Average consumer credit in October and November was 10.0% higher than in the third quarter (annual rate), suggesting continued consumer spending growth in the fourth quarter.

...but signals are mixed for the first quarter of 2005

- The index of consumer confidence rose slightly to 124.2 in January, remaining above its ten-year average of 113.2. Consumers seemed more enthusiastic regarding big-ticket items and their employment prospects.
- Preliminary estimates for January point to a 1.0% decline in new motor vehicle sales. Assuming no growth in February and March, motor vehicle sales would decline 4.3% in the first quarter of 2005.
- The February Consensus Forecast expects personal expenditure to grow 3.1% in 2005.

Total Retail and Motor Vehicle Sales



Retail Sales and Consumer Credit

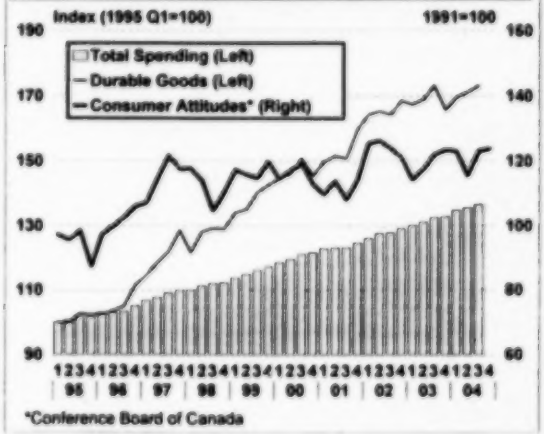
November 2004

	$ millions	% Change since last month	% Change since last year
Total Retail Sales (S.A.)	29,530	-0.1	6.7
Food	5,830	2.1	6.8
Drug Stores	1,961	0.7	8.4
Clothing	1,665	-0.1	1.1
Furniture	1,872	-2.1	2.8
Automotive	10,062	-0.3	10.1
General Merch. Stores	3,503	-2.3	2.5
All other Stores	4,637	0.0	5.8
Total ex. motor vehicles	22,389	-0.0	6.8
Consumer Credit	269	0.7	11.0

Real Consumer Spending and Household Finances

$ Millions, SAAR (unless otherwise noted)	2002	2003	2004 Q2	2004 Q3
Real Consumption (97$)	601,594	620,444	638,154	642,868
% change	*3.4*	*3.1*	*2.1*	*3.0*
Durable Goods	93,099	94,923	96,213	97,345
% change	*8.3*	*2.0*	*3.5*	*4.8*
Semi-Durable Goods	54,472	56,142	58,800	60,071
% change	*3.8*	*3.1*	*3.5*	*8.9*
Non-Durable Goods	137,196	140,078	142,562	143,271
% change	*2.3*	*2.1*	*0.2*	*2.0*
Services	317,627	330,098	341,421	343,202
% change	*2.6*	*3.9*	*2.3*	*2.1*
Disposable Income	692,691	713,548	738,176	741,904
% change	*3.8*	*3.0*	*5.0*	*2.0*
Saving Rate (%)	3.2	1.4	0.5	0.0
Debt-to-Income Ratio (%)	98.1	101.6	104.0	105.1

Real Consumer Spending and Attitudes



*Conference Board of Canada

Business Investment

Indicators point to a further increase in machinery and equipment (M&E) investment...

- Imports of machinery and equipment (M&E) recovered partially (3.2%) in December, following a decline of 5.0% in November. However, as prices for M&E imports were 7.1% (on average) lower in the fourth quarter than in the third, real imports of M&E rose 16.6% in the fourth quarter, following a 20.1% increase in the third.

- This points to continued growth in M&E investment which rose 8.2% in the third quarter.

...despite a decline in business confidence

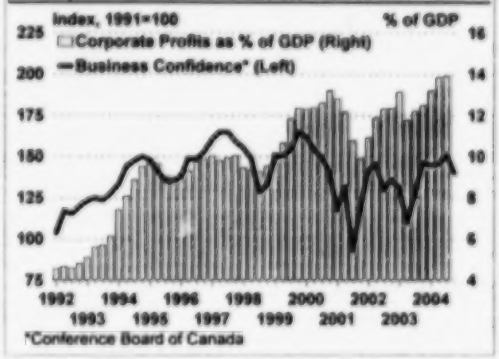
- The Index of Business Confidence fell 11.6 points to 139.8 in the fourth quarter, but remained near its ten-year average of 142.4. This was essentially due to a deteriorating balance of opinion regarding financial position prospects and capital expenditure.

  - Despite a decline, the majority of respondents (55.4%) felt this was a good time to undertake capital expenditures.

  - While firms' prospects regarding their financial situation declined, the profit share of GDP had reached 13.9% in both the second and third quarters, compared to a ten-year average of 11.1%.

Investment in Plant and Equipment

Corporate Profits & Business Confidence



Business Investment and Corporate Finances

$ Millions, SAAR (unless otherwise noted)

	2002	2003	2003 Q4	2004 Q1	2004 Q2	2004 Q3
BUSINESS INVESTMENT						
Machinery & Equipment (1997$)	82,715	86,441	88,920	90,688	91,906	93,735
% change	*-1.2*	*4.5*	*3.2*	*8.2*	*5.5*	*8.2*
Non-residential Construction (1997$)	44,493	44,928	45,501	45,100	45,197	45,262
% change	*-8.3*	*1.0*	*3.5*	*-3.5*	*0.9*	*0.6*
Capacity Utilization (%, Non-farm goods)	83.0	82.9	83.8	83.9	84.7	85.7
Capacity Utilization (Mfg. sector)	83.3	82.9	84.2	84.6	86.4	88.5
CORPORATE FINANCES & ATTITUDES						
Corporate Operating Profits	149,969	172,118	178,676	194,124	205,244	205,320
% change	*4.8*	*14.8*	*17.7*	*39.3*	*25.0*	*0.1*
Profits - Non-financial industries	115,798	128,203	131,604	142,680	155,400	154,448
% change	*8.8*	*10.7*	*19.5*	*38.2*	*40.7*	*-2.4*
Profits - Financial industries	34,169	43,915	47,072	51,444	49,840	50,876
% change	*-6.8*	*28.5*	*13.0*	*42.7*	*-11.9*	*8.6*
Business Credit	890,038	904,664	910,911	920,410	933,893	949,301
% change	*3.8*	*1.6*	*2.5*	*4.2*	*6.0*	*6.8*

Housing

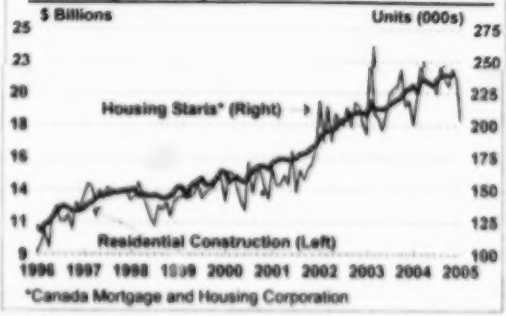
Housing activity moderated in the fourth quarter...

- Housing starts rose 1.6% in the fourth quarter, following a 6.5% increase in the third.
- Sales of existing homes declined 9.9% in the fourth quarter, following a 12.9% decline in the third.
- Despite some moderation in the latter part of the year, housing starts rose 5.8% in 2004, reaching a 17-year high. The largest increases were witnessed in British Columbia (24.8%) and Quebec (16.0%), while the largest decline was witnessed in Ontario (1.6%).
- New housing prices rose 5.8% (year-over-year) in December, following a 6.0% increase in November. Price increases have been on a downward trend since June, when they rose 7.3%.

...and prospects suggest some slowdown in 2005

- The value of residential building permits issued ended the year on a strong note, rising 8.2% in December, following an increase of 2.2% in November. This points to continued robust activity in the beginning of this year.
- The February Consensus Forecast expects housing starts to average 209,000 in 2005, down from 233,000 in 2004.

Housing Activity



*Canada Mortgage and Housing Corporation

Monthly Housing Indicators

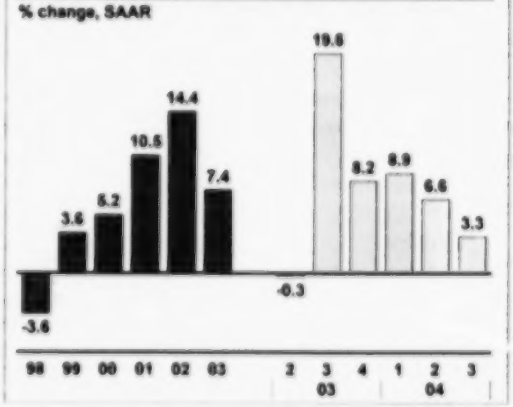
	Levels	Change since Last month	Change since Last year
Residential Construction (1)* ($97M, basic prices)	21,559	0.3%	5.5%
Building Permits, $M (2)*	3,365	8.2%	14.1%
Sales of Existing Homes (2)** (# of units)	25,595	-434	-147
Housing Starts, (3)*** (# of units, SAAR)	203,700	-32,600	3,200
Newfoundland & Labrador	2,900	100	300
Prince Edward Island	1,800	1,100	300
Nova Scotia	4,600	-800	600
New Brunswick	2,500	-2,000	-100
Quebec	55,400	-5,300	6,800
Ontario	71,700	-9,600	3,200
Manitoba	3,800	0	300
Saskatchewan	2,600	-1,100	-600
Alberta	30,800	-8,000	-2,400
British Columbia	27,600	-7,000	-5,200

1 - November data; 2 - December data; 3 - January data
Sources: *Statistics Canada; **Canadian Real Estate Association; ***Canada Mortgage and Housing Corporation

Real Investment in Residential Structures

$97 Millions, SAAR (unless otherwise noted)	2002	2003	2004 Q2	2004 Q3
Residential Construction	58,133	62,452	67,247	67,792
% change	*14.4*	*7.4*	*6.6*	*3.3*
New Housing	28,900	30,678	32,995	33,377
% change	*23.2*	*6.2*	*3.9*	*4.7*
Alterations & Improvements	20,600	22,619	24,100	24,808
% change	*4.7*	*9.8*	*2.1*	*12.3*
Ownership & Transfer Costs	8,639	9,204	10,148	9,728
% change	*11.5*	*6.5*	*25.1*	*-15.6*

Growth in Real Residential Construction



Trade and Competitiveness

Imports increased more than exports in December...

- Imports increased 4.0% in December after declining 2.8% in November. Imports rose in all principal groupings except agricultural and fishing products. The increase was led by energy products and automotive products. Imports from the U.S. were up 7.3% while non-U.S. imports declined from a record high. Import volumes rose 2.1% and prices were down 3.9% in the fourth quarter.

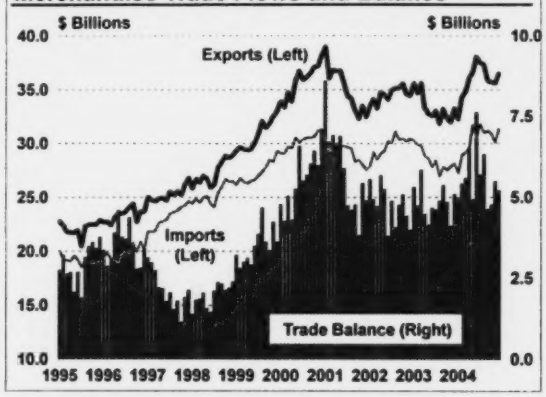
- Merchandise exports rose 2.8% in December, after edging down 0.4% in November. The increase was mostly concentrated in exports of automotive and energy products. Overall, export volumes were up 1.6% while prices increased 1.2%. Nonetheless, export volumes edged down 0.5% and prices decreased 2.1% in the fourth quarter.

...pushing the trade surplus lower

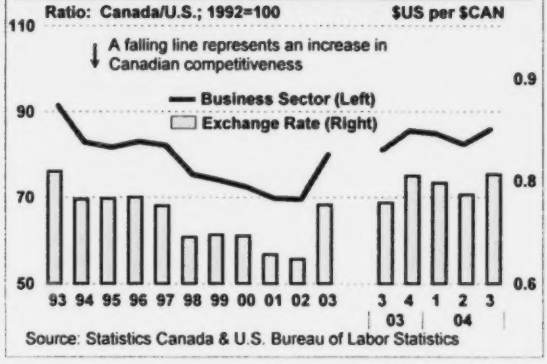
- Canada's trade surplus declined by $0.3 billion to $5.2 billion in December. The trade surplus with the U.S. contracted by $0.4 billion to $8.8 billion and the trade deficit with other countries edged down by $0.1 billion to $3.6 billion.

- Canada's trade surplus stood at $67.2 billion in 2004, the second highest level on record. Exports increased 7.6% (6.8% in volume and 0.8% in prices) and imports were up 6.2% (9.0% in volume and -2.8% in prices) after both declining in 2003.

Merchandise Trade Flows and Balance



Unit Labour Cost Comparison ($US)



Source: Statistics Canada & U.S. Bureau of Labor Statistics

Merchandise Trade

December 2004	Levels ($ millions)		Year-to-date ($ millions)		Change ($M)	% Change	
	November 2004	December 2004	Jan.-Dec. 2003	Jan.-Dec. 2004	Nov. to Dec. 2004	Nov. to Dec. 2004	Jan.-Dec. 2003 to Jan.-Dec. 2004
Exports	**35,558**	**36,482**	**400,011**	**430,357**	**924**	**2.6**	**7.6**
to United States	29,141	30,183	330,376	351,937	1,042	3.6	6.5
Imports	**30,070**	**31,273**	**341,832**	**363,125**	**1,203**	**4.0**	**6.2**
from United States	19,899	21,350	239,871	249,982	1,451	7.3	4.2
Trade Balance	**5,488**	**5,209**	**58,179**	**67,232**	**-279**		
with United States	9,242	8,833	90,505	101,955	-409		
Exports by Commodity							
Agriculture/Fishing Products	2,447	2,363	29,258	30,699	-84	-3.4	4.9
Energy Products	6,416	6,751	60,499	69,199	335	5.2	14.4
Forestry Products	3,057	3,026	34,454	39,199	-31	-1.0	13.8
Industrial Goods & Materials	6,485	6,798	66,538	77,591	313	4.8	16.6
Machinery & Equipment	7,430	7,380	88,606	91,791	-50	-0.7	3.6
Automotive Products	7,074	7,425	87,374	90,324	351	5.0	3.4
Other Consumer Goods	1,385	1,423	17,184	17,299	38	2.7	0.7
Imports by Commodity							
Agriculture/Fishing Products	1,760	1,754	21,517	21,367	-6	-0.3	-0.7
Energy Products	2,406	2,584	19,625	24,886	178	7.4	26.8
Forestry Products	277	282	3,022	3,178	5	1.8	5.2
Industrial Goods & Materials	6,200	6,436	65,182	73,467	236	3.8	12.7
Machinery & Equipment	8,344	8,609	98,239	103,697	265	3.2	5.6
Automotive Products	6,240	6,549	76,360	77,303	309	5.0	1.2
Other Consumer Goods	3,977	4,096	46,260	47,665	119	3.0	3.0

Employment and Unemployment

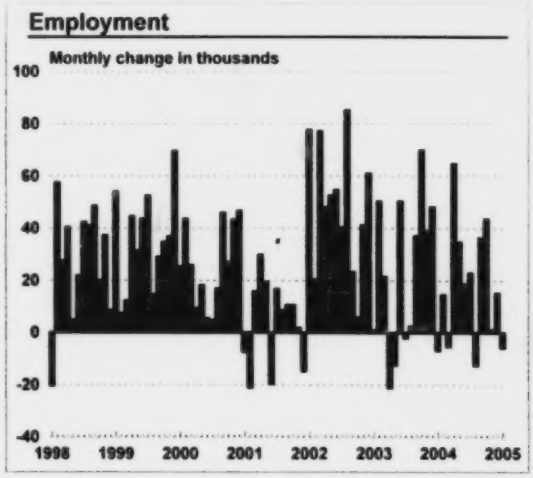
Employment declined in January...

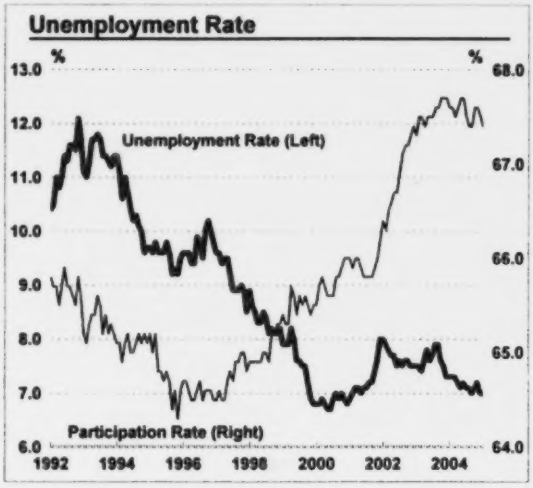
- Employment edged down 5,700 in January. This was the third consecutive month of insignificant movement in employment and the first decline since August.
- Employment losses were in both part-time (3,600) and full-time employment (2,100). Most employment losses were among youth (20,800). However, in the last 12 months, 227,500 jobs have been created, almost all in full-time.
- The number of jobs in the public sector fell 47,900, but remained almost the same as last January. This was partially offset by net job creation in the private sector for both paid employment (24,500) and self-employment (17,800).
- Both the participation and employment rates (67.4% and 62.7%, respectively) remained near their historical peaks.

...but the unemployment rate remained at 7.0%

- Despite lower employment, the unemployment rate was unchanged at 7.0%, as less people sought jobs.

Labour Force Survey (LFS) estimates have undergone extensive revisions. Among them, all estimates have been adjusted to reflect 2001 Census population counts (previously based on the 1996 Census estimates) and industry estimates have been classified from the 1997 to the 2002 North American Industry Classification System (NAICS). As a result of these changes, LFS estimates have been revised back to January 1976.





Labour Force Trends

(in thousands)	Levels			Change since			% Change since	
	2004 January	2004 December	2005 January	last month	last year	year-to-date	last month	last year
Employment	15,829.9	16,063.1	16,057.4	-5.7	227.5	-5.7	-0.0	1.4
Full-time	12,877.9	13,098.7	13,096.6	-2.1	218.7	-2.1	-0.0	1.7
Part-time	2,952.0	2,964.4	2,960.8	-3.6	8.8	-3.6	-0.1	0.3
Youth 15-24	2,435.4	2,484.9	2,464.1	-20.8	28.7	-20.8	-0.8	1.2
Adult 25+	13,394.5	13,578.2	13,593.3	15.1	198.8	15.1	0.1	1.5
Self-employed	2,433.2	2,453.4	2,471.2	17.8	38.0	17.8	0.7	1.6
Unemployment	1,253.4	1,216.9	1,206.4	-10.5	-47.0	-10.5	-0.9	-3.7
Unemployment Rate	7.3	7.0	7.0	0.0	-0.3	0.0		
Youth 15-24	13.8	12.7	12.8	0.1	-1.0	0.1		
Adult 25+	6.1	5.9	5.8	-0.1	-0.3	-0.1		
Labour Force	17,083.3	17,280.0	17,263.8	-16.2	180.5	-16.2	-0.1	1.1
Participation Rate	67.6	67.5	67.4	-0.1	-0.2	-0.1		
Employment Rate	62.6	62.8	62.7	-0.1	0.1	-0.1		

Industry Overview

Employment rose further in the Goods sector...

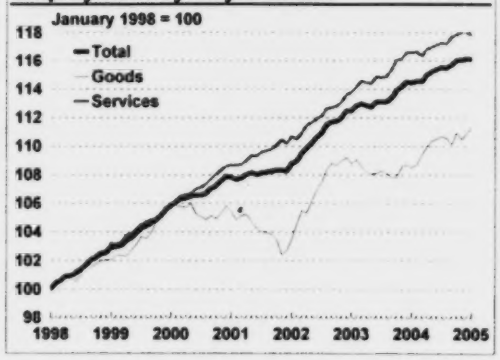
- Employment in the Goods sector rose 13,100 in January, following an increase of 16,100 in December. Job gains in the manufacturing (13,900) and construction (10,300) sectors offset losses in agriculture (4,600), natural resources (4,000), and utilities (2,500).

- Despite job gains recorded in January, employment in the manufacturing sector declined 29,200 over the last seven months of 2004. This sector has been affected by a higher Canadian dollar and substantial increases in energy prices in recent months. The construction sector has continued to perform well, as 84,300 jobs have been added to this industry over the past 13 months.

...but decreased in the Services sector

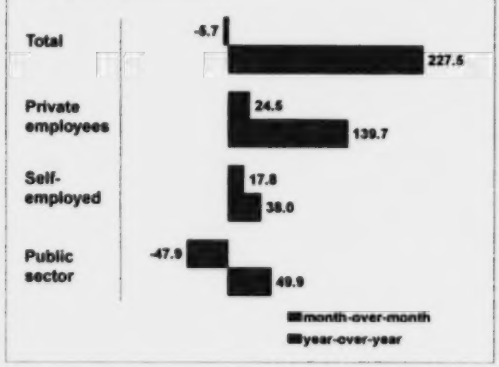
- Employment decreased 18,800 in the Service sector, following a slight decline the previous month. Employment in the Service sector has been relatively unchanged since October. Most job losses in January were in public administration (14,300), health care & social assistance (14,300) and information, culture & recreation (12,300). The highest gains were posted in trade (18,300) and accommodation & food services (9,300).

Employment by Major Sector



Employment Growth by Worker Category

January 2005 (thousands)



Industrial Employment Trends

(in thousands)	Levels			Change since			% Change since	
	2004 January	2004 December	2005 January	last month	last year	year-to-date	last month	last year
Goods-producing	3,937.3	4,023.9	4,037.0	13.1	99.7	13.1	0.3	2.5
Agriculture	326.9	321.7	317.1	-4.6	-9.8	-4.6	-1.4	-3.0
Natural Resources*	280.0	301.2	297.2	-4.0	17.2	-4.0	-1.3	6.1
Utilities	132.7	124.6	122.1	-2.5	-10.6	-2.5	-2.0	-8.0
Construction	915.7	995.0	1,005.3	10.3	89.6	10.3	1.0	9.8
Manufacturing	2,282.0	2,281.5	2,295.4	13.9	13.4	13.9	0.6	0.6
Services-producing	11,892.6	12,039.2	12,020.4	-18.8	127.8	-18.8	-0.2	1.1
Trade	2,495.5	2,524.2	2,542.5	18.3	47.0	18.3	0.7	1.9
Transportation*	817.1	786.6	792.9	6.3	-24.2	6.3	0.8	-3.0
FIRE*	929.0	984.4	985.1	0.7	56.1	0.7	0.1	6.0
Professional/Scientific	996.8	1,029.8	1,030.1	0.3	33.3	0.3	0.0	3.3
Business/Building	625.5	632.8	622.4	-10.4	-3.1	-10.4	-1.6	-0.5
Educational Services	1,042.4	1,056.7	1,047.8	-8.9	5.4	-8.9	-0.8	0.5
Health Care/Social Assistance	1,732.2	1,736.4	1,722.1	-14.3	-10.1	-14.3	-0.8	-0.6
Information/Culture/Recreation	729.2	733.3	721.0	-12.3	-8.2	-12.3	-1.7	-1.1
Accommodation & Food	998.1	1,016.7	1,026.0	9.3	27.9	9.3	0.9	2.8
Other Services	705.5	702.0	708.5	6.5	3.0	6.5	0.9	0.4
Public Administration	821.3	836.2	821.9	-14.3	0.6	-14.3	-1.7	0.1

*Natural Resources: Forestry, Fishing, Mining, Oil & Gas; Transportation includes warehousing; FIRE: Finance, Insurance, Real Estate & Leasing.

Provincial Overview

Job gains were concentrated in the western provinces and Quebec in January...

- Employment increased in all western provinces, but Manitoba. British Columbia's (B.C.) employment edged up 2,200 as a gain of 16,800 full-time jobs offset a loss of 14,700 part-time positions. Alberta reported the strongest gain while employment edged up 500 in Saskatchewan.

- Quebec reported the highest employment gain among provinces (15,700) following a decline of 11,400 in December, all in full-time. In Ontario, employment declined 28,300 and was widespread among industries. Ontario's employment has not changed much since September.

- In the Atlantic provinces, the only significant change occurred in New Brunswick where employment declined 2,600.

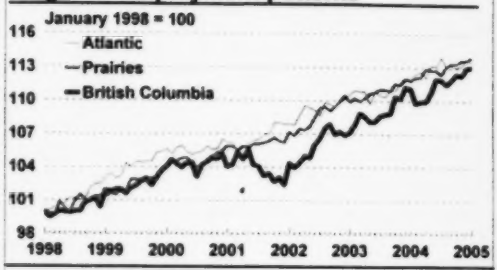
...and the unemployment rate decreased in four provinces

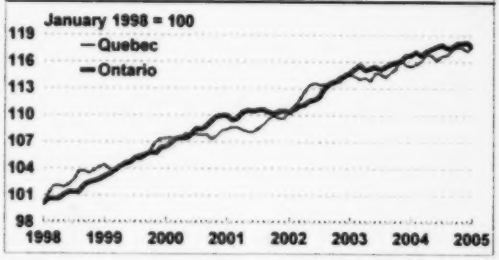
- Employment gains in B.C. were more than offset by higher labour force participation, pushing up the unemployment rate by 0.3 percentage point to 6.5% in January. Alberta's unemployment rate declined to 4.4%, the lowest in the country.

- Strong employment gains pushed Quebec's unemployment rate to 8.4% in January. Meanwhile, lower labour force participation allowed Ontario's unemployment rate to decline to 6.7%.

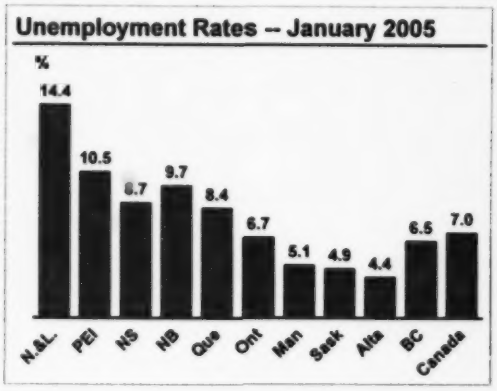
- The unemployment rate rose to 9.7% and 10.5%, respectively, in Prince Edward Island and New Brunswick, while it declined to 8.7% in Nova Scotia.

Regional employment patterns





Unemployment Rates -- January 2005



Provincial Employment and Unemployment Trends

	Employment (thousands)					Unemployment Rate (%)		
	Levels	Change since last month		Change since last year		Levels	Change since	
	2005 January	(000's)	%	(000's)	%	2005 January	last month	last year
Canada	16,057.4	-5.7	-0.0	227.5	1.4	7.0	0.0	-0.3
Newfoundland & Labrador	216.0	0.0	0.0	0.7	0.3	14.4	0.0	-1.6
Prince Edward Island	68.5	-0.2	-0.3	2.3	3.5	10.5	0.1	-0.6
Nova Scotia	444.6	1.2	0.3	9.2	2.1	8.7	-0.2	-0.5
New Brunswick	350.3	-2.6	-0.7	2.0	0.6	9.7	0.3	-0.4
Quebec	3,719.6	15.7	0.4	71.2	2.0	8.4	-0.2	-0.5
Ontario	6,325.2	-28.3	-0.4	52.4	0.8	6.7	-0.1	0.0
Manitoba	579.7	-0.6	-0.1	5.9	1.0	5.1	0.1	-0.1
Saskatchewan	487.4	0.5	0.1	11.4	2.4	4.9	-0.4	-0.7
Alberta	1,774.5	6.4	0.4	35.6	2.0	4.4	0.0	-0.5
British Columbia	2,091.7	2.2	0.1	36.8	1.8	6.5	0.3	-0.9

Consumer and Commodity Prices

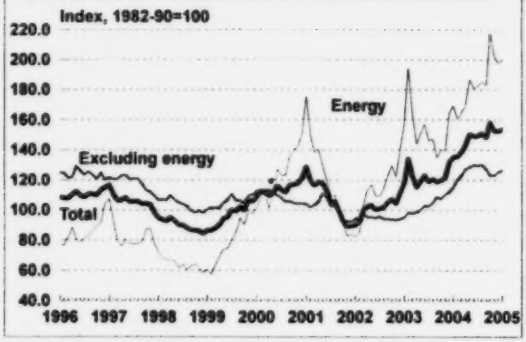
Inflation moderated to 2.1% in December...

- On a year-over-year basis, the increase in the Consumer Price Index (CPI) was 2.1% in December, down from 2.4% in November. A slowdown in the increase in gasoline prices from 17.7% in November to 12.1% contributed to the rise. Excluding energy, inflation was unchanged at 1.6% in December.
- Inflation edged down or stayed the same in all provinces except Newfoundland & Labrador, where it rose to 3.2%.
- On a month-to-month basis (seasonally adjusted), the CPI was stable in December following a rise of 0.3% in November.
- The year-over-year increase in commodity prices has slowed in recent months and was 13.5% in January as energy price inflation moderated to 18.1%, the smallest increase since March 2004. On a monthly basis, commodity prices rose 0.9% following a small decline in December. Excluding energy, commodity prices rose 0.8% from December.

...but the "core" rate rose to 1.7%

- The "core" rate of inflation, which excludes the eight most volatile components and indirect taxes, rose to 1.7% in December from 1.6% in November, below the midpoint of the 1%-3% official target range.

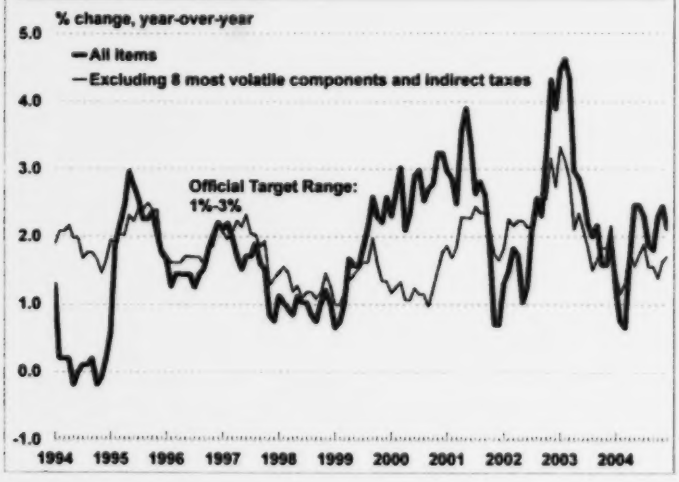
Commodity Prices ($US basis)



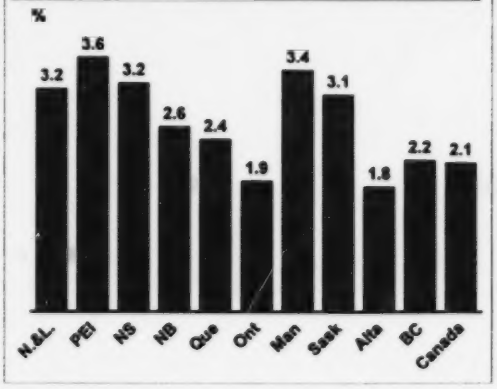
Consumer Prices

December 2004	Index (1992=100)	% Change since last month	% Change since last year
All items CPI	125.4	-0.2	2.1
Food	127.2	0.5	3.1
Shelter	122.3	0.1	2.9
Household operations	115.3	0.2	0.3
Clothing & Footwear	100.8	-2.3	-1.7
Transportation	145.8	-0.6	3.6
Health & Personal Care	119.1	0.3	1.3
Recreation, Educ. & Reading	126.9	-0.4	0.3
Alcohol & Tobacco	144.5	-0.1	3.1
Excl. 8 Most Volatile/Indirect Taxes	125.2	-0.1	1.7
Energy	147.3	-2.9	8.1
Commodity Prices (January 2005)			
Index, 1982-90=100	153.5	0.9	13.5
Excluding Energy	126.1	0.8	9.6
Energy	199.6	1.0	18.1

Consumer Price Index



Provincial CPI Inflation -- December 2004



Short-term and Long-term Interest Rates

The U.S. short-term rate rose above its Canadian counterpart in February

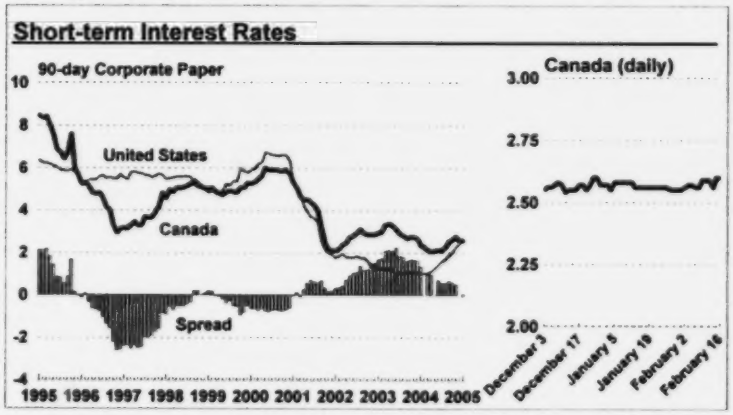
- The Federal Reserve raised its fed funds rate by 25 basis points (bps) to 2.5% on February 2, which brought the cumulative increase since June 2004 to 150 bps. The U.S. economy has been growing at a moderate pace and the February Consensus Forecast outlook for 2005 has been slightly upgraded to 3.5%. While robust activity south of the border bodes well for Canada, momentum in Canada's economic growth remains uncertain due in part to the appreciation of the dollar. As a result, the Bank of Canada decided to keep the target for the overnight rate unchanged at 2.5% on January 25, and will likely remain on the sidelines in the short-term as the Federal Reserve expects to continue raising its policy rate.

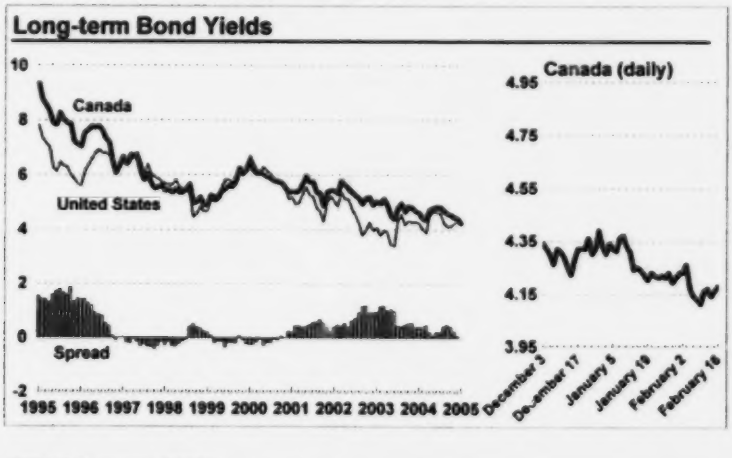
- Canadian short-term rates have held steady in the 2.55%-2.60% range since December. During this time, U.S. rates rose about 40 bps to 2.71% on February 15, resulting in a negative Canada-U.S. rate spread (-10 bps), down from a spread of nearly 70 bps in September 2004.

Long-term yields have surprisingly trended down

- Despite rising U.S. short-term rates and robust economic conditions and prosperity, long-term rates have trended down in recent weeks, a development puzzling to analysts and termed a conundrum by Federal Reserve Board Chairman Alan Greenspan. In the U.S., 10-year yields were 4.18% on February 16, down from 4.32% in late December. Yields in Canada fell from 4.39% on December 29 to 4.16% on February 16, narrowing the spread between yields in Canada and the U.S. to 2 bps.

- Mortgage rates have been stable since mid-December. One-year mortgage rates were 4.80% on February 16, and five-year mortgage rates held at 6.05%.





Key Market Rates

(end of period)	90-day Corporate Paper	*spread against U.S.*	Long Bond Yield	*spread against U.S.*
2003	2.66	1.62	4.66	0.39
2004	2.57	N/A	4.39	0.06
August	2.22	0.55	4.68	0.42
September	2.50	0.65	4.58	0.48
October	2.60	0.59	4.52	0.41
November	2.74	0.49	4.44	0.24
December	2.57	N/A	4.39	0.06
January	2.56	-0.04	4.21	0.00
Feb. 16 *	2.60	-0.13	4.18	0.02

A positive spread indicates that Canadian rates are above their U.S. counterparts. * Bank of Canada's Weekly Financial Statistics

Key Lending Rates

(end of period)	Overnight Rate	Prime Lending Rate	Mortgage Rate 1 year	5 year
2003	2.75	4.50	4.75	6.45
2004	2.50	4.25	4.80	6.05
August	2.00	3.75	4.40	6.30
September	2.25	4.00	4.80	6.30
October	2.50	4.25	4.90	6.40
November	2.50	4.25	5.00	6.30
December	2.50	4.25	4.80	6.05
January	2.50	4.25	4.80	6.05
Feb. 16 *	2.50	4.25	4.80	6.05

* Bank of Canada's Weekly Financial Statistics

Exchange Rates and Stock Prices

The Canadian dollar lost some ground in February...

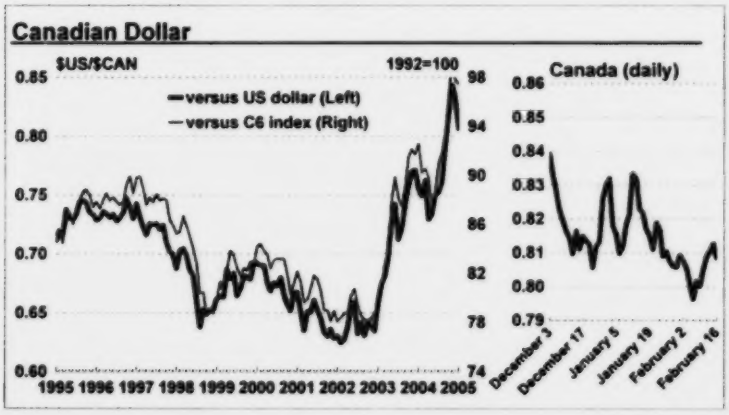
- The Canadian dollar fell 2.8% from January 13 (US¢83.2) to close at US¢80.8 on February 16, due mostly to strengthening in the U.S. dollar. As well, rising short-term interest rates in the U.S. and a negative Canada-U.S. rate gap impacted the exchange rate. Nevertheless, a sustained rise in the greenback remains uncertain amid concerns of global trade imbalances, particularly the large U.S trade deficit.

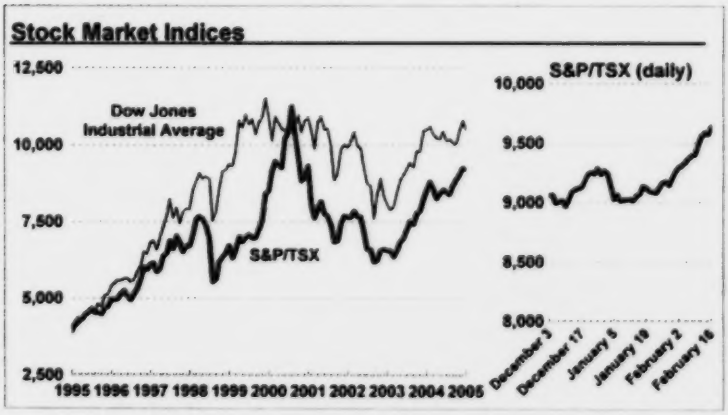
- The Canadian dollar was near the same level vis-a-vis the euro on February 16 ($1.61) compared to mid-January, and about 3.3% stronger compared to a recent low on December 23. After moving little against the yen since December, the dollar appreciated 1.5% from February 2 to 16.

...but North American stock indices trended higher

- The S&P/TSX index has risen steadily after a sharp decline in early January. The index closed at 9,640 on February 16, up 7.0% from 9,006 on January 7. Since declining in January, metals & mining and gold sub-indices recovered while the energy sub-index remained strong.

- The Dow Jones closed at 10,835 on February 16, 4.3% higher compared to 10,393 on January 21, a recent low. A downward trend in long-term bond yields have helped boost equity markets.





The Canadian Dollar

(close)	$US vs. $CAN	Index vs. C-6 (92=100)	$CAN vs. EURO	yen vs. $CAN
2003	0.7713	91.65	1.628	82.86
2004	0.8319	97.74	1.629	85.27
August	0.7616	91.80	1.599	83.19
September	0.7926	93.52	1.569	87.21
October	0.8210	96.36	1.559	86.88
November	0.8432	99.92	1.577	86.76
December	0.8319	97.74	1.629	85.27
January	0.8057	97.41	1.618	83.49
Feb. 16	0.8083	96.23*	1.611	85.23

* Bank of Canada's Weekly Financial Statistics

Key Stock Market Indexes

	January Close	% change from last month	% change from last year
S&P/TSX	**9,204**	**-0.5**	**8.0**
Energy	210	4.8	36.0
Metals & Mining	262	-1.9	22.3
Utilities	168	3.8	12.0
Materials	160	-4.2	9.0
Industrial	77	2.2	-0.1
Financial	151	-2.1	8.9
Gold	197	-4.8	-2.9
Telecommunication	75	4.5	9.5
Information Technology	30	-5.3	-11.8
Consumer Discretionary	93	-0.9	4.5
Consumer Staples	200	3.4	15.5
S&P 500	**1,181.3**	**-2.5**	**4.4**
Dow Jones	**10,490**	**-2.7**	**0.0**

U.S. Economic Trends

Economic growth moderated to 3.1% in the fourth quarter...

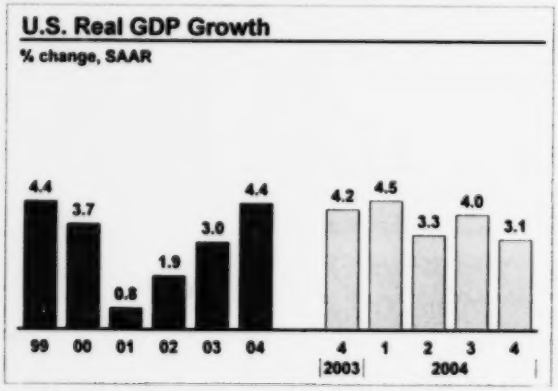
- According to preliminary estimates, real gross domestic product (GDP) increased at an annual rate of 3.1% in the fourth quarter, after increasing 4.0% in the third quarter. Economic growth was supported by strong consumer spending, business fixed investment, and a build-up in inventories. On the other hand, exports decreased 3.9%, the first decline in more than a year, and imports rose 9.1% as domestic demand remained buoyant. In 2004, real GDP increased 4.4% compared to 3.0% the previous year, the fastest pace in five years. However, the February Consensus Forecast expects growth to moderate to 3.5% in 2005.

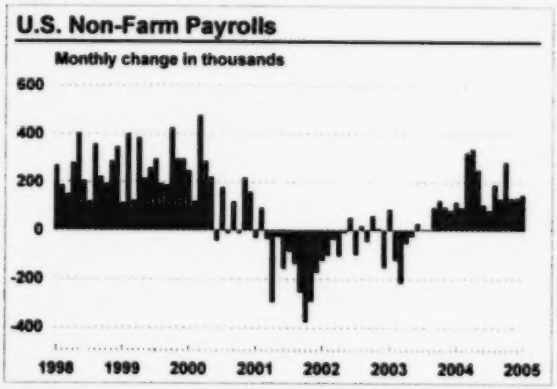
...but productivity growth remained at 2.5%

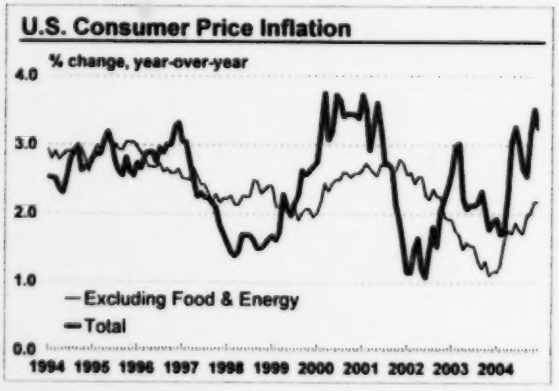
- In the fourth quarter, according to preliminary estimates, labour productivity increased 2.5% in the business sector, virtually the same pace as in the previous quarter. The rise reflects an increase of 3.3% in output and 0.8% in hours worked. However, in the non-farm business sector, labour productivity growth moderated to only 0.8% in the fourth quarter, from 1.8% in the third quarter, as output increased 2.8% and hours worked 1.9%. In 2004, productivity increased 4.0% in the business sector and 4.1% in the non-farm business sector.

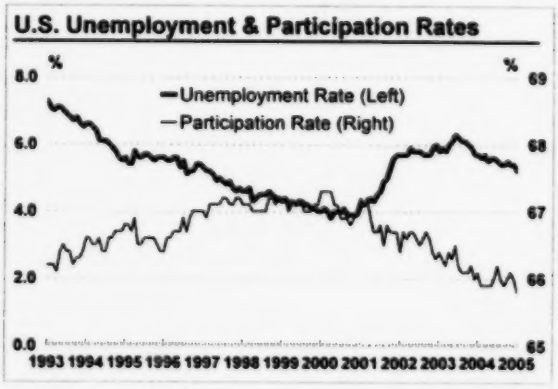
Recent indicators point to continued growth in the first quarter

- The Institute of Supply Management (ISM) manufacturing and non-manufacturing indices decreased to 56.4 and 59.2, respectively, in January, suggesting a slower rate of economic growth. Moreover, non-farm employment increased 146,000 in January, following a gain of 133,000 in December. The unemployment rate declined to 5.2%. Manufacturing output rose further in January, while housing starts reached levels not seen since the mid-1970s. All this points to continued growth in the first quarter of 2005.









Source: U.S. Bureau of Economic Analysis & U.S. Bureau of Labor Statistics

COMING UP

Key Future Data Releases and Planned Events

CANADA

Consumer Price Index - January	February 22
Financial Statistics for Enterprises - 4th Quarter 2004	February 25
Balance of International Payments - 4th Quarter 2004	February 25
National Economic and Financial Accounts - 4th Quarter 2004	February 28
Real GDP by Industry - December	February 28
Key Policy Interest Rate Announcement	March 2
Labour Force Survey - February	March 11
Canadian International Merchandise Trade - January	March 11
Monthly Survey of Manufacturing - January	March 15

UNITED STATES

Consumer Price Index - January	February 23
GDP - 4th Quarter 2004 (preliminary)	February 25
The Employment Situation - February	March 4
International Trade in Goods and Services - January	March 11
Federal Open Market Committee Meeting	March 22

Note: The February 2005 MEI uses data available as of February 16, 2005

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Monthly Economic Indicators

March 2005

The "Monthly Economic Indicators" (MEI) provides a variety of economic analysis and data in a convenient format. The MEI does not interpret or evaluate government policies, and every attempt is made to present factual information in an informed and balanced manner consistent with generally accepted economic principles. It is available to all employees of Industry Canada in either hard or electronic copy, or can be accessed via the Internet at http://strategis.ic.gc.ca/epic/internet/ineas-aes.nsf/en/h_ra01898e.html

Canada

MONTHLY ECONOMIC INDICATORS

March 2005

HIGHLIGHTS

- ***Growth in real Gross Domestic Product (GDP) slowed to 1.7% in the fourth quarter, mostly due to a decline in exports.***
- ***Employment rose in February, while the unemployment rate was unchanged at 7.0%. Manufacturing employment fell further, and the construction sector posted its first decline since September.***
- ***Merchandise exports declined in January as a result of a fall in energy exports. The trade surplus narrowed from December.***
- ***In the United States (U.S.), real GDP growth for the fourth quarter was revised up to 3.8% from 3.1% in advance estimates.***
- ***Consensus Forecasts revised down growth for Canada in 2005 by 0.2 percentage point to 2.6% while U.S. growth was revised up 0.2 percentage point to 3.8%.***
- ***Labour productivity growth averaged zero percent in Canada in 2004 compared to 4.0% in the U.S., leading to a further widening of the productivity gap between the two countries.***
- ***The Canadian dollar recovered some strength in recent weeks, despite a widening of the negative spread between Canadian and U.S. interest rates.***

Key Monthly Economic Indicators

		% Change since last month	% Change since last year	
Real GDP ($97 B)	1,058.9	0.2	2.9	Dec.
Goods	333.8	0.4	3.3	Dec.
Services	726.1	0.2	2.7	Dec.
Composite Index	201.6	0.2	6.4	Jan.
Employment (000's)	16,084	0.2	1.5	Feb.
Full-time	13,118	0.2	1.7	Feb.
Part-time	2,966	0.2	0.9	Feb.
Unemployment* (%)	7.0	7.0	7.3	Feb.
Youth*	12.3	12.8	13.9	Feb.
Adult*	6.0	5.8	6.0	Feb.
CPI inflation*	2.0	2.1	1.2	Jan.
Retail Sales ($M)	29,180	-1.4	6.6	Dec.
Housing Starts (000's)**	214.9	5.3	-2.9	Feb.
Trade Balance* ($M)	4,006	5,209	4,979	Jan.
Exports	35,884	-1.6	11.3	Jan.
Imports	31,878	1.9	16.9	Jan.
M&E	8,750	1.6	11.7	Jan.

		February	
	March 23 ***	2005	2004
3-mth Corp. paper (%)*	2.68	2.57	2.25
Long bond yield (%)*	4.47	4.28	4.41
Canadian dollar (US¢)*	82.20	81.07	74.87

*Data in levels only – % change not reported
**Canada Mortgage and Housing Corporation
***Bank of Canada's Weekly Financial Statistics
All other data from Statistics Canada

The "Monthly Economic Indicators" (MEI) provides a variety of economic analysis and data in a convenient format. The MEI does not interpret or evaluate government policies, and every attempt is made to present factual information in an informed and balanced manner consistent with generally accepted economic principles. It is available to all employees of Industry Canada in either hard or electronic copy, or can be accessed via the Internet at http://strategis.ic.gc.ca/epic/internet/ineas-aes.nsf/en/h_ra01898e.html

Industry Canada Industrie Canada

Canada

MONTHLY ECONOMIC INDICATORS
March 2005

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This issue uses data available as of March 23, 2005. It has been prepared by Jean-François Arsenault, Éric Chalifoux, Stéphane Crépeau, Kevin Koch, Sue Moore and François Rimbaud of the Micro-Economic Analysis Directorate, under the direction of Hossein Rostami. Translation has been provided by Lucie Larocque and Sue Hopf is responsible for production support.

Sources of information primarily include Statistics Canada, as well as the Bank of Canada, Canada Mortgage and Housing Corporation, Canadian Real Estate Association, Conference Board of Canada, U.S. Bureau of Economic Analysis, and U.S. Bureau of Labor Statistics. Unless cited otherwise, data contained in graphs and tables are derived from Statistics Canada.

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National Economic and Financial Accounts

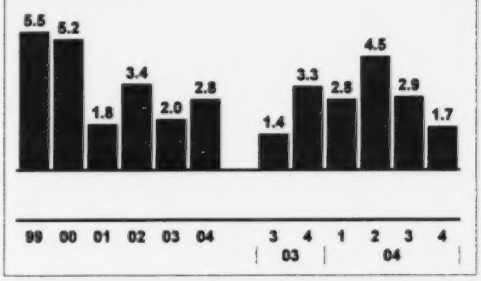
Exports continued to pull growth down in the fourth quarter...

- Real gross domestic product (GDP) increased 1.7% (all rates annualized) in the fourth quarter, after increasing 2.9% in the previous quarter.
- Consumer spending and business investment in machinery and equipment both picked up in the fourth quarter, advancing 4.1% and 14.4%, respectively.
- Business inventory accumulation was $22.4 billion in the fourth quarter, the highest level on record and an increase of $4.2 billion from the previous quarter.
- Exports fell 3.5% in the fourth quarter, following a downwardly-revised 3.4% decline in the third quarter. Imports rose 8.4% in the fourth quarter.

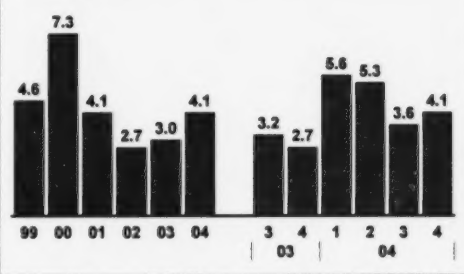
...while incomes continued to rise at a healthy pace

- Pre-tax corporate profits rose 6.0%, below the double-digit pace in the first half of the year. At about 14% of GDP, corporate profits are at record highs.
- Personal disposable income rose 4.4% in the fourth quarter from 2.6% in the third, reflecting a 4.5% growth in wages and salaries. The savings rate fell to zero, the lowest on record from 0.3% in the third quarter.
- Consensus forecasts GDP growth in 2005 to be 2.6%, revised down from 2.8% in February.

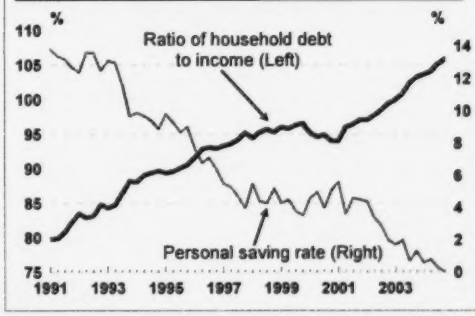
Real GDP Growth



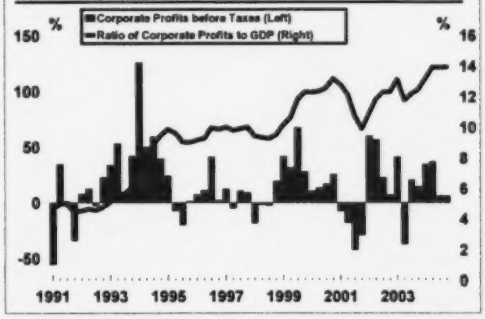
Growth in Personal Income



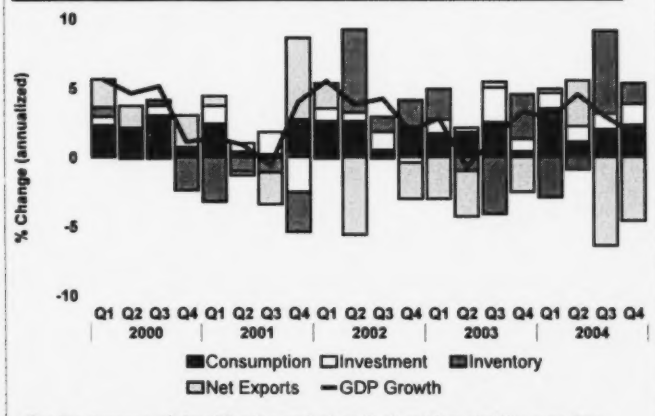
Personal Debt and Savings Rate



Corporate Profits



Contributions to Quarterly Real GDP Growth* (Annualized)



* For the purpose of simplification and given their relative stability over time, contributions from government expenditures are not shown.

Capacity Utilization Rate

Industrial capacity utilization increased in the fourth quarter...

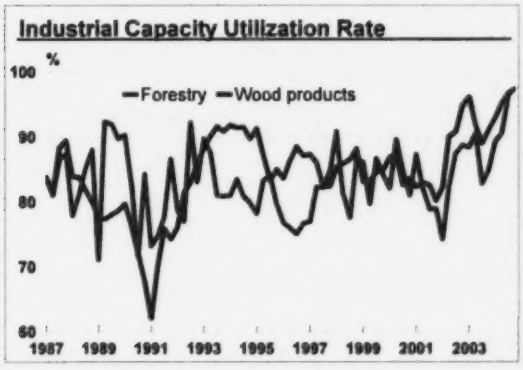
- The capacity utilization rate for non-farm goods-producing industries recorded its third consecutive quarterly increase in the fourth quarter. The increase was mainly driven by the electricity power generation, transmission and distribution sector. Industries operated at 86.0% of their production capacity, 1.2 points below the peak reached in the first quarter of 1988, but well above its 10-year average of 83.2%.

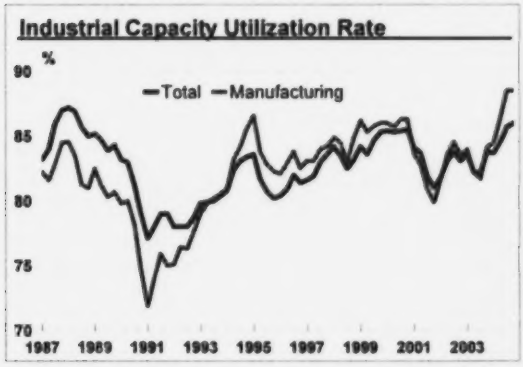
- Capacity utilization in the manufacturing sector, however, was unchanged at 88.5% in the fourth quarter of 2004, a record high since the availability of data in 1987. Capacity utilization rates increased in 11 out of 21 manufacturing industries, with notable increases in leather and allied products, furniture and related products, and non-metallic mineral products industries.

...and for the year as a whole

- In 2004, industries operated at 85.0% of production capacity, up from 83.0% in the previous year. The higher rate was largely attributable to the manufacturing sector, which benefited from robust international demand in the first half of the year.

- The strongest increases in capacity utilization in 2004 were recorded by computer and electronic products, machinery, and forestry and logging. The forestry and logging industry operated at 93.5% of capacity in 2004 as it benefited from continued strength in residential construction.





Capacity Utilization: Non-farm Goods-producing Industries

	Level (%) 2004Q4	Change (% points) Q/Q	Y/Y	10-year Average
Total Industrial	**86.0**	**0.3**	**2.0**	**83.2**
Forestry & logging	97.4	0.9	6.8	83.7
Mining & oil & gas extraction	75.4	0.8	0.9	76.4
Electric power *	87.5	2.2	-0.3	84.8
Construction	84.5	-0.4	-2.7	85.0
Total Manufacturing	**88.5**	**0.0**	**4.0**	**84.2**
Food	85.6	0.8	4.0	80.9
Beverage & tobacco products	75.7	0.3	-0.3	80.2
Textile mills	77.6	-1.5	1.8	80.5**
Textile product mills	81.4	1.6	-0.2	79.5**
Clothing	67.7	-2.1	-7.5	81.7
Leather & allied products	69.1	4.1	-1.9	73.9
Wood products	97.4	0.7	3.6	87.2
Paper	92.8	0.2	0.2	90.2
Printing & related support activities	75.8	-1.6	0.4	78.0
Petroleum and coal products	91.2	-1.8	-2.3	93.8
Chemical	92.6	-0.1	6.0	83.2
Plastic & rubber products	90.3	-0.5	1.8	85.3
Non-metallic mineral products	93.0	2.5	3.4	82.0
Primary metal	92.5	-3.5	2.4	90.8
Fabricated metal products	91.0	1.5	5.0	81.8
Machinery	90.6	1.0	8.0	81.6
Computer & electronic products	85.0	1.0	12.6	80.5
Electrical equipment	77.2	-0.7	5.7	82.3
Transportation equipment	91.9	-0.1	5.1	87.2
Furniture & related products	84.7	3.0	1.5	82.0
Miscellaneous manufacturing	79.5	-3.8	0.2	82.4

* Electric power generation, transmission & distribution
** Represents available data between 1997Q1-2004Q4

International Accounts

The current account surplus declined further in the fourth quarter, but was a record high in 2004

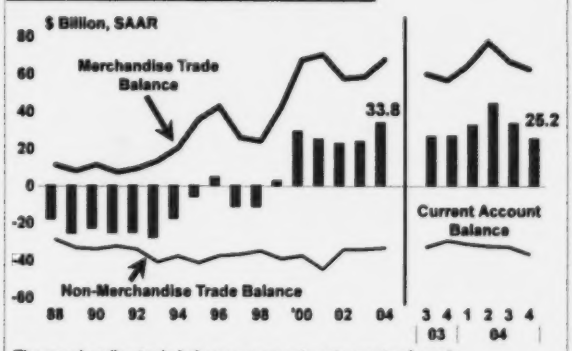
- The current account surplus declined $2.1 billion to $6.3 billion ($25.2 billion annualized) in the fourth quarter, primarily due to a lower surplus on trade in goods and a higher deficit on investment income. In 2004, the current account surplus increased $10.0 billion compared to 2003 and reached a record of $33.8 billion (or 2.6% of GDP).

- The surplus on trade in goods decreased to $15.5 billion ($62.2 billion annualized) as exports (2.6%) fell more than imports (2.0%) in the fourth quarter. All major export categories registered a decline except energy products as prices increased. The decline in imports was led by machinery and equipment, primarily due to lower prices, and automotive products. Moreover, the deficit on investment income increased $0.7 billion to $6.5 billion, resulting from lower profits earned by Canadians on their investment abroad. In 2004, the goods surplus reached a three year high ($67.3 billion) as exports and imports also reached record levels.

Canadian direct investment abroad fell in the fourth quarter

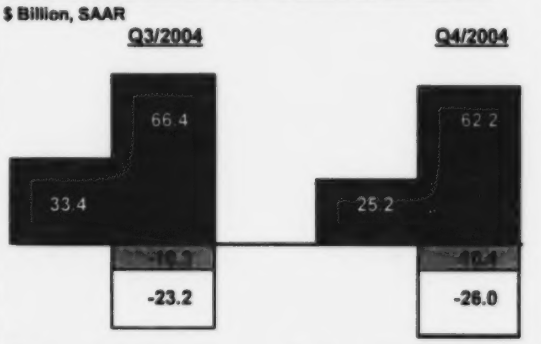
- Canadian direct investment abroad was $8.3 billion, down significantly from the two previous quarters. Canada's direct investment abroad reached a four year high in 2004 ($57.5 billion). Over 70% of the investment went to the United States. On an industry basis, the investment was led by finance and insurance and energy and metallic minerals. In the fourth quarter, there was a net outflow from Canada on foreign direct investment as Canadian repatriated assets held by foreign direct investors. For the year as a whole, foreign direct investment in Canada was $8.5 billion, the smallest level since 1993. Foreign portfolio investment in Canada increased by $14.8 billion in the fourth quarter, as investors bought equal amounts of Canadian bonds and equities.

Current Account & Trade Balances

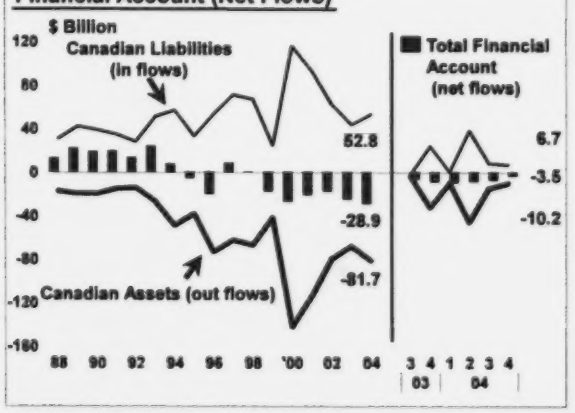


The merchandise trade balance represents net exports of goods.
The non-merchandise trade balance represents net exports of services plus net receipts of investment income and transfers.

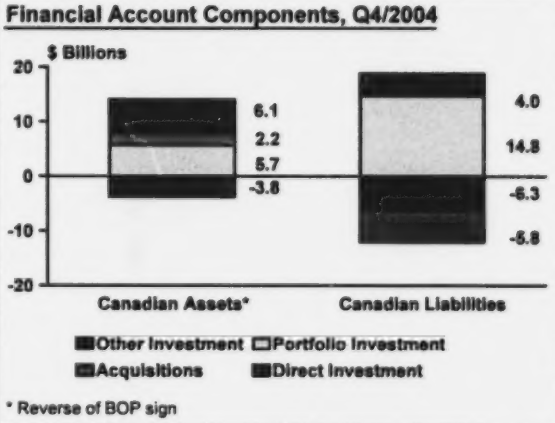
Main Components of the Current Account



Financial Account (Net Flows)



Financial Account Components, Q4/2004



* Reverse of BOP sign

Productivity & Competitiveness

Canada-U.S. labour productivity gap widened further in 2004...

- Labour productivity growth in the business sector averaged zero in Canada in 2004, compared to 4.0% in the U.S.
- Canada's slower output growth (2.9% versus 5.1% in the U.S.) and its faster growth in hours worked explains its weaker productivity performance (2.8% versus 1.1%).
- In fact, labour productivity in the U.S. business sector grew at an average annual rate of 3.8% between 2000 and 2004, compared to only 1.1% per year in Canada. As a result, the Canada-U.S. labour productivity level gap widened over this period.

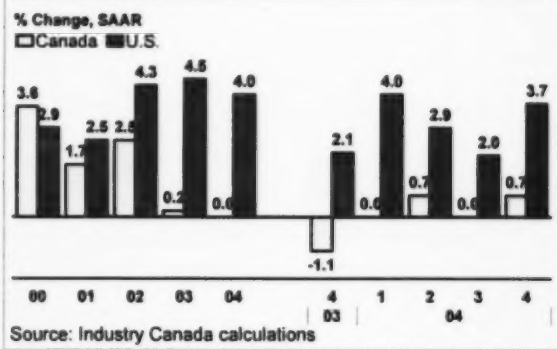
...and Canada's unit labour costs rose faster...

- Unit labour costs in the Canadian business sector rose by 1.1% in 2004, compared to only 0.5% in the U.S. This is the fourth consecutive year that growth in unit labour costs is higher in Canada than in the U.S.

...combined with a stronger Canadian dollar, eroded Canada's competitiveness

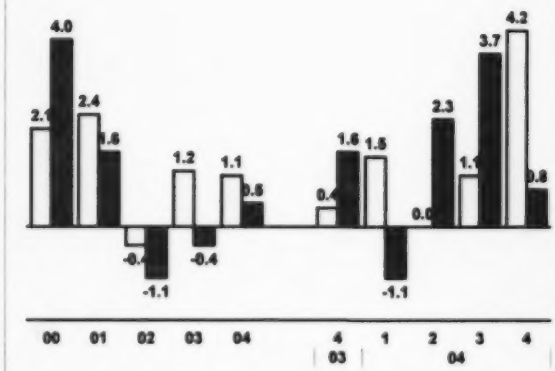
- Canada's competitiveness, as measured by relative unit labour costs in the two countries in $US dollars, has deteriorated 24% over the last two years. This reflects Canada's lagging productivity performance and the appreciation of the Canadian dollar, which increased by more than 20% over the last two years.

Productivity Growth



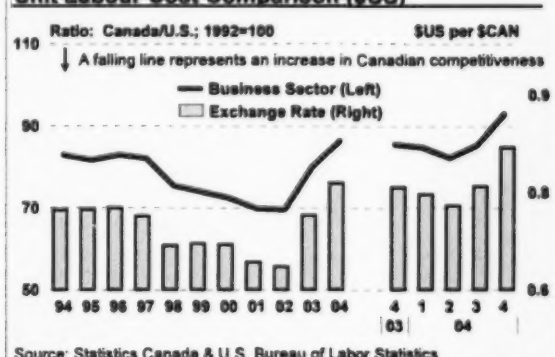
Source: Industry Canada calculations

Growth in Unit Labour Costs*



* For the business sector
Source: Statistics Canada, U.S. Bureau of Labour Statistics and Industry Canada calculations.

Unit Labour Cost Comparison ($US)



Source: Statistics Canada & U.S. Bureau of Labor Statistics

Real GDP by Industry

Economic activity grew further in December...

- Real GDP at basic prices rose 0.2% in December following an upwardly revised growth of 0.3% in November. Nonetheless, output increased 2.0% in the fourth quarter, down from a rise of 3.6% in the third. The increase in production in December was fairly widespread across both goods and services, with large gains in utilities, wholesale trade, FIRE and manufacturing.

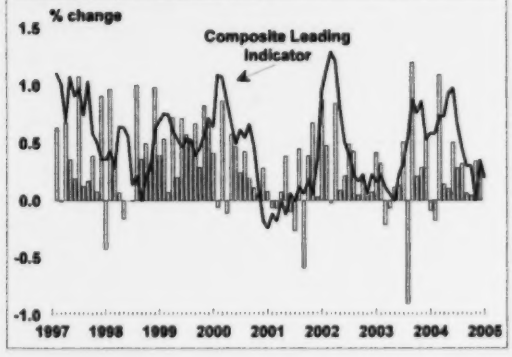
with the goods sector reporting strong results...

- Goods production was up 0.4% in December, the same pace as in November. Increased demand for electricity due to cold weather in Central Canada and the Prairies led to a 2.9% increase in utilities. Moreover, increased drilling, rigging and metal mining activities resulted in higher mining, oil & gas output (0.3%) while a partial recovery in the production of motor vehicles contributed to stronger manufacturing growth (0.3%). The construction sector continued its march forward, advancing 0.3% in December. However, agriculture, which represents only 7.3% of goods-producing industries, posted the sole decline (0.3%).

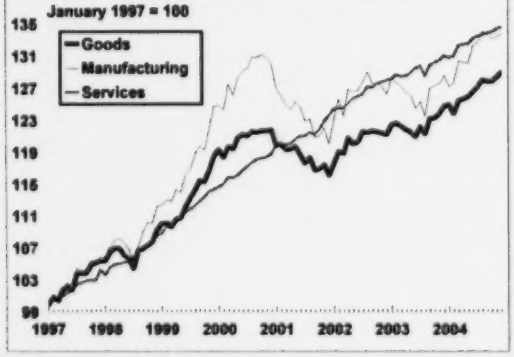
and the service sector continuing to grow

- Service output increased 0.2% in December after rising 0.3% in November. Growth was driven by robust wholesale trade (0.8%) and increasing FIRE activity (0.2%). Wholesalers continued to reap the benefits of a rising currency in the form of cheaper imports while sustained housing activity benefited real estate agents. Moreover, arts, entertainment & recreation (1.8%) recovered as NHL fans started to redirect their spending towards other forms of entertainment. In contrast, retail trade declined substantially (1.5%), due in part to a strike by employees of Quebec liquor stores. Nonetheless, on a year-over-year basis, retail activity was still up 4.8%, reporting the strongest performance among services-producing industries.

Real GDP at Basic Prices



Real GDP by Major Sector



Real GDP at Basic Prices (1997 chained dollars)

December 2004	$ millions	monthly change	% Change since last month	% Change since last year
Total Economy	**1,058,859**	**2,640**	**0.2**	**2.9**
Business Sector	**901,086**	**2,407**	**0.3**	**3.3**
Goods-producing	**333,815**	**1,485**	**0.4**	**3.3**
Agri., Forest, Fish, Hunt*	24,302	-61	-0.3	5.2
Mining & Oil & Gas Extraction	38,011	99	0.3	-0.2
Utilities	27,128	757	2.9	6.1
Construction	59,459	182	0.3	2.6
Manufacturing	184,663	492	0.3	4.1
Services-producing	**726,108**	**1,110**	**0.2**	**2.7**
Wholesale Trade	68,172	533	0.8	4.6
Retail Trade	59,548	-901	-1.5	4.8
Transportation & Warehousing	50,930	297	0.6	3.5
Information & Cultural	43,659	177	0.4	4.4
FIRE**	213,013	526	0.2	3.4
Professional***	46,411	-9	-0.0	2.0
Admin. & Waste Mgmt	22,242	36	0.2	2.5
Education	45,198	-97	-0.2	-0.2
Health & Social	63,173	163	0.3	1.1
Arts, Entertain. & Recreation	9,530	165	1.8	-0.2
Accommodation & Food	23,729	99	0.4	1.9
Other	24,743	79	0.3	1.3
Public Administration	57,470	76	0.1	0.8

*Agriculture, Forestry, Fishing & Hunting
**Finance, Insurance & Real Estate
***Professional, Scientific & Technical services

Real GDP by Industry

Economic activity improved in 2004...

- Real GDP at basic prices rose 3.0% in 2004 after rising 2.2% in 2003. The Canadian economy was propelled by higher natural resource prices, low interest rates and a strong U.S. demand. However, a stronger loonie coupled with weakening global demand contributed to a slowdown later in the year, particularly affecting the manufacturing sector. Economic activity in 2004 was fueled by the business sector, which posted 3.4% growth, up from 2.2% in 2003.

...as growth in the goods sector doubled, aided by a recovery in the manufacturing sector

- In 2004, goods production grew 3.4%, up from 1.7% growth in 2003 and outpacing the service industries for the first time in the last four years. Growth was concentrated in the middle of the year, as the manufacturing sector benefited from strong U.S. demand. Moreover, low interest rates supported growth in the construction sector (3.8%) while the mining, oil & gas sector continued to grow (2.7%) as high prices and demand for natural resources were partly offset by various production difficulties. However, in the fourth quarter, the lagged effects of the loonie's appreciation were felt, with the manufacturing industry stalling and merchandise exports falling.

...while the services-producing industries continued to grow

- Service output increased 2.8% in 2004, up from 2.5% in 2003. Growth was robust in most sectors, with the notable exception of arts, entertainment & recreation (0.4%) which suffered from the NHL lock-out. Wholesale trade (6.2%) benefited from cheaper imports while retail trade (3.9%) and accommodation & food (2.3%) were supported by strong consumer spending. Moreover, FIRE grew 3.5% as housing activity remained strong while transportation & warehousing (4.4%) benefited from strong growth in exports and the recovery in the manufacturing sector, particularly in the first half of the year. Output in the public sector slowed in 2004 as growth in health & social and public administration moderated to 1.4%, from 3.9% and 2.9% respectively in 2003.

Real GDP at Basic Prices (1997 chained dollars)

Percentage Growth

	2001	2002	2003	2004	2004.Q1	2004.Q2	2004.Q3	2004.Q4
Total Economy	1.7	3.4	2.2	3.0	2.5	4.2	3.6	2.0
Business Sector	1.6	3.6	2.2	3.4	2.9	5.0	3.7	2.4
Goods-producing	-1.9	1.8	1.7	3.4	2.5	4.4	5.2	2.2
Agri., Forest, Fish, Hunt*	-5.7	-3.5	7.6	4.7	10.3	1.0	8.5	3.6
Mining & Oil & Gas Extraction	-0.9	0.6	3.9	2.7	0.1	3.5	-3.4	2.3
Utilities	-3.2	2.3	-2.3	0.1	3.8	-3.9	8.3	9.4
Construction	6.9	2.9	4.4	3.8	2.9	0.4	3.5	5.1
Manufacturing	-4.0	2.4	0.1	3.9	1.9	7.8	8.0	0.0
Services-producing	3.6	4.2	2.5	2.8	2.5	4.2	2.8	2.0
Wholesale Trade	2.2	7.1	5.6	6.2	-2.7	11.8	7.2	5.1
Retail Trade	5.7	5.3	2.8	3.9	7.9	2.4	6.8	2.6
Transportation & Warehousing	2.5	1.7	0.3	4.4	2.6	9.7	1.4	3.3
Information & Cultural	8.0	6.3	2.3	1.2	2.3	6.5	1.6	3.8
FIRE**	4.9	4.8	2.2	3.5	4.3	5.0	2.1	2.8
Professional***	1.6	4.5	3.1	1.9	3.8	3.8	-0.2	0.7
Admin. & Waste Mgmt	3.6	4.8	3.8	2.4	2.1	5.1	2.0	0.5
Education	1.2	1.1	0.6	0.6	-0.2	3.9	-0.4	0.6
Health & Social	3.2	3.8	3.9	1.4	0.4	-1.7	6.5	-0.1
Arts, Entertain. & Recreation	3.6	6.5	3.8	0.4	1.2	-0.9	3.6	-9.2
Accommodation & Food	2.8	1.9	-1.7	2.3	0.8	0.0	0.6	4.2
Other	3.9	2.9	1.8	1.4	1.0	1.5	-0.2	2.8
Public Administration	1.2	2.6	2.9	1.4	1.2	0.6	2.4	-1.3

*Agriculture, Forestry, Fishing & Hunting
**Finance, Insurance & Real Estate
***Professional, Scientific & Technical services

Consumer Spending and Attitudes

Consumption grew at a faster pace in the fourth quarter...

- Real consumption grew 4.1% in the fourth quarter, following an upwardly revised increase of 3.6% in the third. For the year, it grew 3.5%, the largest increase since 2000.
  - Fourth quarter expenditures on durables, non-durables and services increased while spending on semi-durables posted a small decline.
- Expenditures on transportation and communication increased 6.6%. Lucrative financing incentives contributed to higher (3.6%) purchases of motor vehicles.

...amid rising income and high confidence

- Disposable income grew 4.4% in the fourth quarter, following an increase of 2.6% in the third.
  - With nominal consumption rising at a faster pace than disposable income, the savings rate has trended down in 2004, falling to 0.0% in the fourth quarter. Moreover, rising debt (of which 69.8% was mortgages) led to an increase in the debt-to-income ratio.
  - However, with household net worth rising, largely as a result of an increase in real estate assets, the low savings rate should not be cause for immediate concern.
- The Index of Consumer Attitudes retreated to 121.4 in February, but remained above its fourth quarter level of 2004. This reflected, in part, a lower number of respondents who felt this was a good time to make a big-ticket purchase.

Total Retail and Motor Vehicle Sales

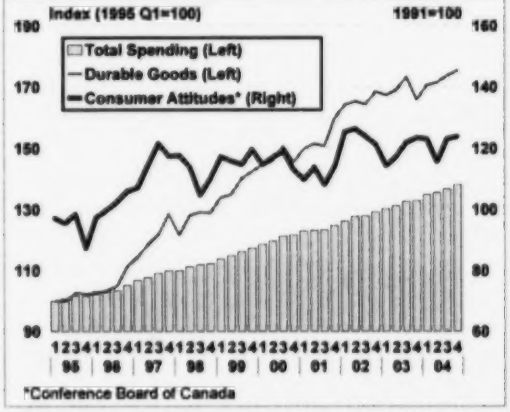
Retail Sales and Consumer Credit

December 2004	$ millions	% Change since last month	% Change since last year
Total Retail Sales (S.A.)	29,180	-1.4	6.6
Food	5,818	-0.8	6.9
Drug Stores	1,907	-2.4	5.1
Clothing	1,693	1.1	3.5
Furniture	1,876	0.1	2.6
Automotive	9,887	-2.0	10.3
General Merch. Stores	3,487	-0.5	5.0
All other Stores	4,513	-2.8	3.0
Total ex. motor vehicles	22,216	-1.1	6.4
Consumer Credit	272	1.0	11.2

Real Consumer Spending and Household Finances

$ Millions, SAAR (unless otherwise noted)	2003	2004	2004 Q3	2004 Q4
Real Consumption (97$)	620,444	641,863	643,833	650,300
% change	*3.1*	*3.5*	*3.6*	*4.1*
Durable Goods	94,923	97,156	97,669	98,601
% change	*2.0*	*2.4*	*5.3*	*3.9*
Semi-Durable Goods	56,142	59,285	60,047	60,031
% change	*3.1*	*5.6*	*8.4*	*-0.1*
Non-Durable Goods	140,078	143,453	143,511	145,274
% change	*2.1*	*2.4*	*2.9*	*5.0*
Services	330,098	342,878	343,636	347,336
% change	*3.9*	*3.9*	*2.8*	*4.4*
Disposable Income	713,548	741,230	744,116	752,180
% change	*3.0*	*3.9*	*2.6*	*4.4*
Saving Rate (%)	1.4	0.4	0.3	0.0
Debt-to-Income Ratio (%)	101.6	104.6	105.1	105.8

Real Consumer Spending and Attitudes



*Conference Board of Canada

Business Investment

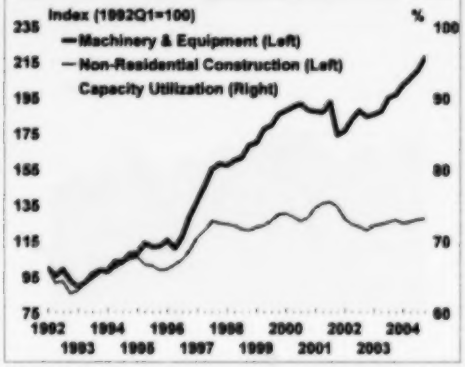
Investment was brisk in the fourth quarter...

- Business fixed investment rose 9.3% in the fourth quarter, following an upwardly revised increase of 7.0% in the third. For the year, fixed investment grew 6.1% following an increase of 3.2% in 2003.
  - Fourth quarter growth was led by Machinery & Equipment (M&E) investment which rose 14.4%, following an upwardly revised increase of 9.1% in the third. M&E investment rose 9.4% in 2004, following an increase of 4.5% in 2003.
  - Investment in non-residential structures rose a modest 1.7% in the fourth quarter, following a 3.7% increase in the third. It rose 1.0% in 2004, the same as in 2003.

...as profits rose further to a record high

- Operating profits rose 9.9% in the fourth quarter, following an upwardly revised increase of 3.0% in the third. Profits rose 18.8% in 2004, to a record high of $205 billion.
  - Operating profits of non-financial industries, led by transportation and warehousing, rose 19.0% following a 0.6% increase in the third. Meanwhile, operating profits of financial industries retreated in the fourth quarter (as a result of year-end provision for future reorganization costs by banks).
- The capacity utilization rate rose further in the fourth quarter and was well above its 10-year average. High profits and capacity utilization rates bode well for investment prospects (see Special Report, pages 20 & 21).

Investment in Plant and Equipment



Corporate Profits & Business Confidence

Business Investment and Corporate Finances

$ Millions, SAAR (unless otherwise noted)	2003	2004	2004 Q1	2004 Q2	2004 Q3	2004 Q4
BUSINESS INVESTMENT						
Machinery & Equipment (1997$)	86,441	94,598	91,569	93,153	95,206	98,464
% change	*4.5*	*9.4*	*12.5*	*7.1*	*9.1*	*14.4*
Non-residential Construction (1997$)	44,928	45,361	44,900	45,177	45,589	45,777
% change	*1.0*	*1.0*	*-5.2*	*2.5*	*3.7*	*1.7*
Capacity Utilization (%, Non-farm goods)	83.0	85.0	83.7	84.6	85.7	86.0
Capacity Utilization (Mfg. sector)	83.0	87.0	84.5	86.4	88.5	88.5
CORPORATE FINANCES & ATTITUDES						
Corporate Operating Profits	172,118	204,505	194,124	205,304	206,828	211,764
% change	*14.8*	*18.8*	*39.3*	*25.1*	*3.0*	*9.9*
Profits - Non-financial industries	128,203	154,083	142,732	155,416	155,632	162,552
% change	*10.7*	*20.2*	*38.4*	*40.6*	*0.6*	*19.0*
Profits - Financial industries	43,915	50,421	51,392	49,888	51,192	49,212
% change	*28.5*	*14.8*	*42.1*	*-11.2*	*10.9*	*-14.6*
Business Credit	904,396	940,831	920,195	933,348	948,840	960,943
% change	*1.6*	*4.0*	*3.9*	*5.8*	*6.8*	*5.2*

Housing

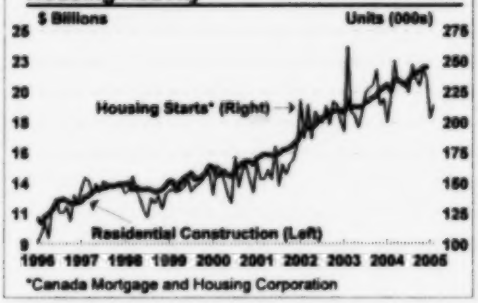
Residential construction rose further in the fourth quarter

- Investment in residential structures rose 6.5% in the fourth quarter, following a 5.1% increase in the third. Investment in residential construction rose 8.4% in 2004, following a 7.4% increase in 2003.
  - The increase was mostly the result of more renovation expenditures (15.0%) and new housing construction. However, the resale market slowed further as ownership transfer costs declined 11.5% in the fourth quarter, following a 13.5% decline in the third.

...but signals point to a cooling housing market

- The value of residential building permits declined 6.8% in January, and were 4.4% below their fourth quarter levels.
- Sales of existing homes rose 3.1%, in major markets in February, following a 0.5% decline in January. Assuming no growth in March, sales of existing homes in major markets will rise 4.2% in the first quarter, following a 10.2% decline in the fourth.
- The March Consensus Forecast expects housing starts to average 208,000 in 2005, down from 233,000 in 2004.

Housing Activity



*Canada Mortgage and Housing Corporation

Monthly Housing Indicators

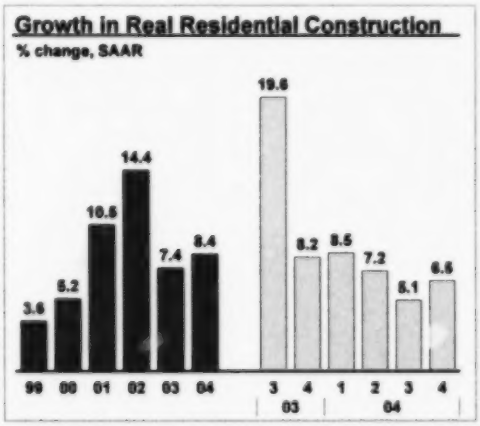
	Levels	Change since Last month	Change since Last year
Residential Construction (1)* ($97M, basic prices)	22,061	0.0%	7.4%
Building Permits, $M (2)*	3,039	-6.8%	6.4%
Sales of Existing Homes (3)** (# of units, major markets)	26,712	812	1,429
Housing Starts, (3)*** (# of units, SAAR)	214,900	10,900	-6,500
Newfoundland & Labrador	3,900	1,000	-900
Prince Edward Island	1,300	-500	800
Nova Scotia	4,500	-100	1,200
New Brunswick	2,800	300	500
Quebec	54,600	-800	-4,100
Ontario	75,300	3,600	-2,300
Manitoba	4,100	300	-100
Saskatchewan	2,600	0	500
Alberta	34,700	3,900	-3,700
British Columbia	31,100	3,200	1,600

1 - December data; 2 - January data; 3 - February data
Sources: *Statistics Canada; **Canadian Real Estate Association; ***Canada Mortgage and Housing Corporation

Real Investment in Residential Structures

$97 Millions, SAAR (unless otherwise noted)	2003	2004	2004 Q3	2004 Q4
Residential Construction	62,452	67,681	68,119	69,205
% change	*7.4*	*8.4*	*5.1*	*6.5*
New Housing	30,678	33,317	33,539	34,165
% change	*6.2*	*8.6*	*7.2*	*7.7*
Alterations & Improvements	22,619	24,627	24,804	25,688
% change	*9.8*	*8.9*	*12.8*	*15.0*
Ownership & Transfer Costs	9,204	9,830	9,872	9,576
% change	*6.5*	*6.8*	*-13.5*	*-11.5*

Growth in Real Residential Construction



Trade and Competitiveness

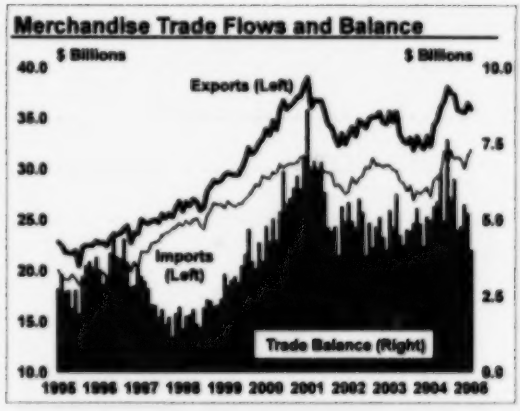
Imports increased while exports decreased in January...

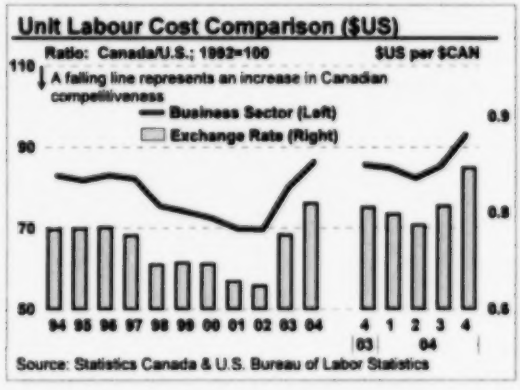
- Imports increased 1.9% in January after increasing 4.0% in December. Imports rose in all principal groupings except forestry products and other consumer goods. The increase was led by agricultural and fishing products and energy products. Imports from the U.S. were up 0.3% while non-U.S. imports rose 5.4%. Imports from the European Union and Japan surged as demand for alcoholic beverages and manufacturing assembly equipment increased. Overall, import prices were down 0.2% while volumes rose 2.1%.

- Merchandise exports declined 1.6% in January, after rising 2.6% in December. Exports in all principal groupings except energy products registered gains. The increase was mostly concentrated in exports of agricultural and fishing products. Excluding energy products, exports rose 0.8% in January. Exports to the U.S. were down 2.3% while exports to non-U.S. destinations rose 1.5%. Overall, export volumes were down 0.6% while prices decreased 1.0%.

...pushing the trade surplus lower

- Canada's trade surplus declined by $1.2 billion to $4.0 billion in January. The trade surplus with the U.S. contracted by $0.8 billion to $8.1 billion and the trade deficit with other countries rose by $0.4 billion to $4.1 billion.





Source: Statistics Canada & U.S. Bureau of Labor Statistics

Merchandise Trade

January 2005	Levels ($ millions)		Year-to-date ($ millions)		Change ($M)	% Change	
	December 2004	January 2005	Jan.-Dec. 2003	Jan.-Dec. 2004	Dec. to Jan. 2005	Dec. to Jan. 2005	Jan.-Dec. 2003 to Jan.-Dec. 2004
Exports	36,482	35,884	400,011	438,387	-598	-1.6	7.6
to United States	30,183	29,492	330,376	351,937	-691	-2.3	6.5
Imports	31,273	31,878	341,832	363,128	606	1.9	6.2
from United States	21,350	21,418	239,871	249,982	68	0.3	4.2
Trade Balance	5,209	4,006	58,179	67,232	-1,203		
with United States	8,833	8,074	90,505	101,955	-759		
Exports by Commodity							
Agriculture/Fishing Products	2,363	2,468	29,258	30,699	105	4.4	4.9
Energy Products	6,751	5,910	60,499	69,199	-841	-12.5	14.4
Forestry Products	3,026	3,099	34,454	39,199	73	2.4	13.8
Industrial Goods & Materials	6,798	6,837	66,538	77,591	39	0.6	16.6
Machinery & Equipment	7,380	7,402	88,606	91,791	22	0.3	3.6
Automotive Products	7,425	7,519	87,374	90,324	94	1.3	3.4
Other Consumer Goods	1,423	1,462	17,184	17,299	39	2.7	0.7
Imports by Commodity							
Agriculture/Fishing Products	1,754	1,908	21,517	21,367	154	8.8	-0.7
Energy Products	2,584	2,641	19,625	24,886	57	2.2	26.8
Forestry Products	282	264	3,022	3,178	-18	-6.4	5.2
Industrial Goods & Materials	6,436	6,467	65,182	73,467	31	0.5	12.7
Machinery & Equipment	8,609	8,750	98,239	103,697	141	1.6	5.6
Automotive Products	6,549	6,678	76,360	77,303	129	2.0	1.2
Other Consumer Goods	4,096	4,018	46,260	47,665	-78	-1.9	3.0

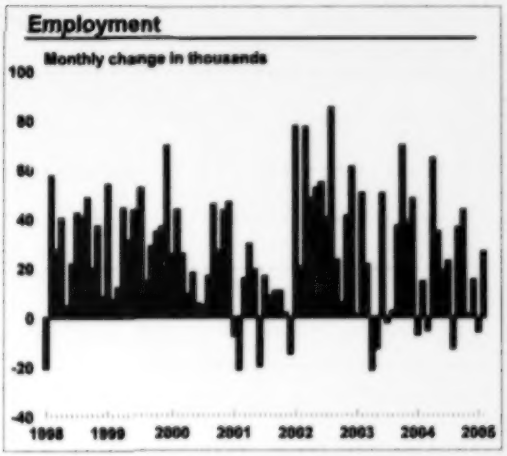
Employment and Unemployment

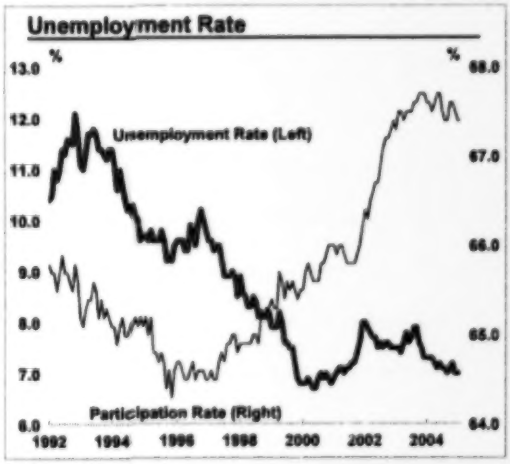
Employment increased in February...

- Employment edged up 26,600 in February, following three months of little change. The rise was due to a recovery in public sector employment, which rose by 38,400. Employment in the private sector fell, as paid employment declined by 35,600 while self-employment rose 23,700.
- Most employment gains were in full-time employment (21,200) while part-time employment rose by 5,300. In the last 12 months, 239,600 net jobs have been created, almost all in full-time.
- Youth employment rose 10,300, all in part-time. Over the past 12 months, youth employment is up 44,000 (or 1.8%).
- Both the participation and employment rates were unchanged at 67.4% and 62.7%, respectively.

...but the unemployment rate remained at 7.0%

- Despite higher employment, the unemployment rate was unchanged at 7.0%, as more people entered the labour force.
- The youth unemployment rate fell 0.5 percentage point to 12.3%, as employment increased and less people sought jobs.





Labour Force Trends

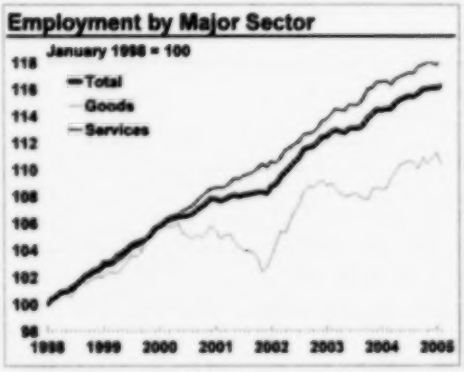
(in thousands)	Levels			Change since			% Change since	
	2004 February	2005 January	2005 February	last month	last year	year-to-date	last month	last year
Employment	15,844.4	16,057.4	16,084.0	26.6	239.6	20.9	0.2	1.5
Full-time	12,903.2	13,096.6	13,117.8	21.2	214.6	19.1	0.2	1.7
Part-time	2,941.1	2,960.8	2,966.1	5.3	25.0	1.7	0.2	0.9
Youth 15-24	2,430.4	2,464.1	2,474.4	10.3	44.0	-10.5	0.4	1.8
Adult 25+	13,413.9	13,593.3	13,609.6	16.3	195.7	31.4	0.1	1.5
Self-employed	2,428.4	2,471.2	2,494.9	23.7	66.5	41.5	1.0	2.7
Unemployment	1,249.7	1,206.4	1,208.5	2.1	-41.2	-8.4	0.2	-3.3
Unemployment Rate	7.3	7.0	7.0	0.0	-0.3	0.0		
Youth 15-24	13.9	12.8	12.3	-0.5	-1.6	-0.4		
Adult 25+	6.0	5.8	6.0	0.2	0.0	0.1		
Labour Force	17,094.1	17,263.8	17,292.5	28.7	198.4	12.5	0.2	1.2
Participation Rate	67.6	67.4	67.4	0.0	-0.2	-0.1		
Employment Rate	62.6	62.7	62.7	0.0	0.1	-0.1		

Industry Overview

Employment declined in the Goods sector...

- Employment in the Goods sector declined 30,300 in February, following an increase of 13,100 in January. Job losses in manufacturing (28,100), construction (11,000) and utilities (2,400) more than offset gains in agriculture (7,700) and natural resources (3,400).

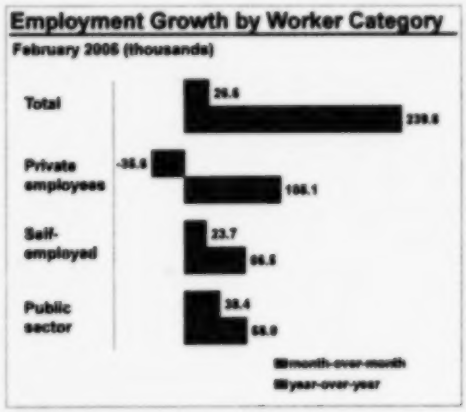
- Since May 2004, employment in manufacturing has fallen 43,400. This sector has been affected by recent declines in exports, in part related to the strong Canadian dollar. However, despite job losses in February, the construction sector has created 81,000 (or 8.9%) jobs over the last 12 months.



...but increased in the Services sector

- Services employment surged 56,800 in February, more than offsetting losses recorded in January. The increase was spread out among sectors, led by educational services (20,500), information, culture & recreation (15,000) and business, building & other support services (13,400). The largest loss was witnessed in accommodation & food services (20,200).

- So far this year, employment in transportation & warehousing (24,300), educational services (11,600) and FIRE* (11,400) have reported the highest employment gains.



Industrial Employment Trends

(in thousands)	Levels			Change since			% Change since	
	2004 February	2005 January	2005 February	last month	last year	year-to-date	last month	last year
Goods-producing	3,943.5	4,037.0	4,006.7	-30.3	63.2	-17.2	-0.8	1.6
Agriculture	328.3	317.1	324.8	7.7	-3.5	3.1	2.4	-1.1
Natural Resources*	281.6	297.2	300.6	3.4	19.0	-0.6	1.1	6.7
Utilities	128.5	122.1	119.7	-2.4	-8.8	-4.9	-2.0	-6.8
Construction	913.3	1,005.3	994.3	-11.0	81.0	-0.7	-1.1	8.9
Manufacturing	2,291.7	2,295.4	2,267.3	-28.1	-24.4	-14.2	-1.2	-1.1
Services-producing	11,900.9	12,020.4	12,077.2	56.8	176.3	38.0	0.5	1.5
Trade	2,494.6	2,542.5	2,548.5	6.0	53.9	24.3	0.2	2.2
Transportation*	815.9	792.9	798.0	5.1	-17.9	11.4	0.6	-2.2
FIRE*	923.0	985.1	989.2	4.1	66.2	4.6	0.4	7.2
Professional/Scientific	1,002.5	1,030.1	1,032.9	2.8	30.4	3.1	0.3	3.0
Business/Building	627.4	622.4	635.8	13.4	8.4	3.0	2.2	1.3
Educational Services	1,049.1	1,047.8	1,068.3	20.5	19.2	11.6	2.0	1.8
Health Care/Social Assistance	1,724.1	1,722.1	1,732.0	9.9	7.9	-4.4	0.6	0.5
Information/Culture/Recreation	735.2	721.0	736.0	15.0	0.8	2.7	2.1	0.1
Accommodation & Food	1,003.6	1,026.0	1,005.8	-20.2	2.2	-10.9	-2.0	0.2
Other Services	702.1	708.5	707.6	-0.9	5.5	5.6	-0.1	0.8
Public Administration	823.3	821.9	823.2	1.3	-0.1	-13.0	0.2	-0.0

*Natural Resources: Forestry, Fishing, Mining, Oil & Gas; Transportation includes warehousing; FIRE: Finance, Insurance, Real Estate & Leasing.

Provincial Overview

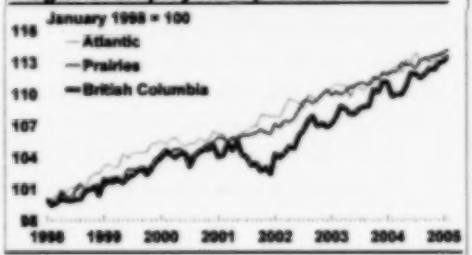
Job gains were concentrated in British Columbia and Ontario in February...

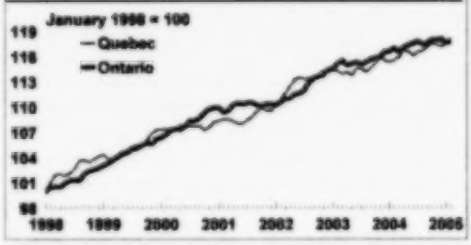
- Employment increased in all western provinces in February. British Columbia (B.C.) recorded the highest employment gain (8,100), all in part-time.
- Ontario reported the highest employment gain among provinces (19,100), partially recovering from a loss of 28,300 jobs in January. In Quebec, a gain of 16,700 in part-time employment was offset by a decline of 20,200 full-time jobs.
- Employment decreased 2,800 in the Atlantic provinces, all in Newfoundland & Labrador (2,100) and Nova Scotia (1,800). Employment in the Atlantic provinces has been relatively unchanged over the last 9 months.

...and the unemployment rate decreased in five provinces

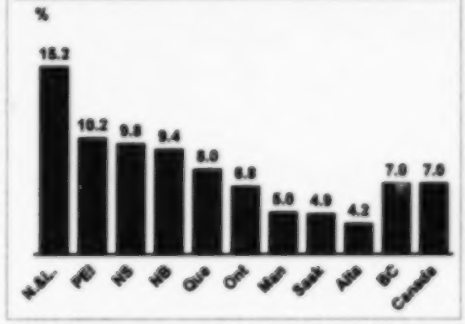
- B.C.'s unemployment rate jumped 0.5 percentage point to 7.0%, as more people sought jobs. A slight employment gain combined with less people seeking jobs pushed Alberta's unemployment rate down to 4.2%.
- Ontario's unemployment rate edged up to 6.8% as the labour force grew at a faster pace than employment. In contrast, Quebec's unemployment rate fell 0.4 percentage point to 8.0% as less people sought jobs.
- The unemployment rate rose to 9.8% and 15.2% in Nova Scotia and Newfoundland & Labrador, respectively, while it declined to 10.2% in Prince Edward Island and to 9.4% in New Brunswick.

Regional employment patterns





Unemployment Rates – February 2005



Provincial Employment and Unemployment Trends

	Employment (thousands)					Unemployment Rate (%)		
	Levels 2005 February	Change since last month (000's)	Change since last month %	Change since last year (000's)	Change since last year %	Levels 2005 February	Change since last month	Change since last year
Canada	16,084.0	26.6	0.2	239.6	1.5	7.0	0.0	-0.3
Newfoundland & Labrador	213.9	-2.1	-1.0	-1.6	-0.7	15.2	0.8	-0.7
Prince Edward Island	68.7	0.2	0.3	2.8	4.2	10.2	-0.3	-1.5
Nova Scotia	442.8	-1.8	-0.4	6.3	1.4	9.8	1.1	0.8
New Brunswick	351.2	0.9	0.3	0.8	0.2	9.4	-0.3	0.2
Quebec	3,716.2	-3.4	-0.1	61.0	1.7	8.0	-0.4	-0.8
Ontario	6,344.3	19.1	0.3	49.5	0.8	6.8	0.1	0.2
Manitoba	582.5	2.8	0.5	9.1	1.6	5.0	-0.1	0.2
Saskatchewan	488.3	0.9	0.2	11.6	2.4	4.9	0.0	-0.7
Alberta	1,776.3	1.8	0.1	30.5	1.7	4.2	-0.2	-0.9
British Columbia	2,099.8	8.1	0.4	69.7	3.4	7.0	0.5	-0.8

Consumer and Commodity Prices

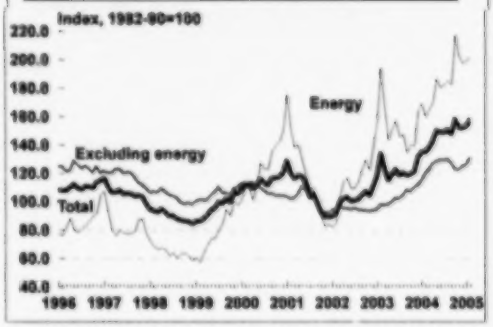
Inflation moderated further to 2.0% in January...

- On a year-over-year basis, the increase in the Consumer Price Index (CPI) moderated to 2.0% in January, from 2.1% in December. The rise in gasoline prices slowed further to 8.6% from 12.1% in December. Excluding energy, inflation was 1.5% in January, down from 1.6% in December, due to a moderation in the rise of homeowners' replacement and insurance costs, and the price of automobiles.
- Inflation moderated in all provinces except British Columbia, where it edged up to 2.3%.
- On a month-to-month basis (seasonally adjusted), the CPI decreased 0.1% in January following no change in December.
- The year-over-year increase in commodity prices was 16.7% in February, up from 13.8% in January. Energy price inflation rose to 25.9% in February from 18.1%. On a monthly basis, commodity prices rose 2.5% after rising 0.9% in January. Excluding energy, commodity prices rose 3.8% from January, the largest monthly gain in one year.

...and the "core" rate fell to 1.6%

- The "core" rate of inflation, which excludes the eight most volatile components and indirect taxes, fell to 1.6% in January from 1.7% in December, below the midpoint of the 1%-3% official target range.

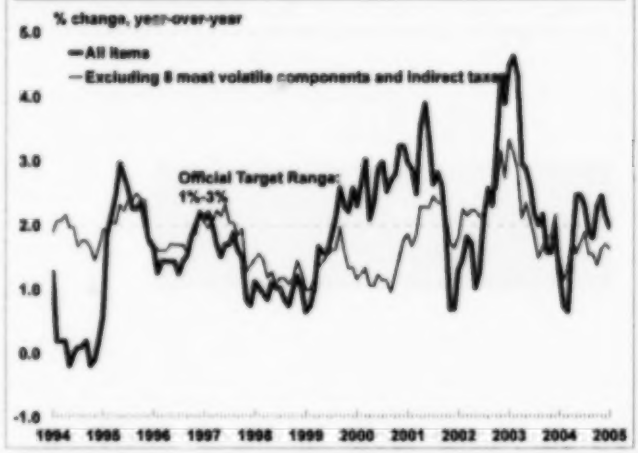
Commodity Prices ($US basis)



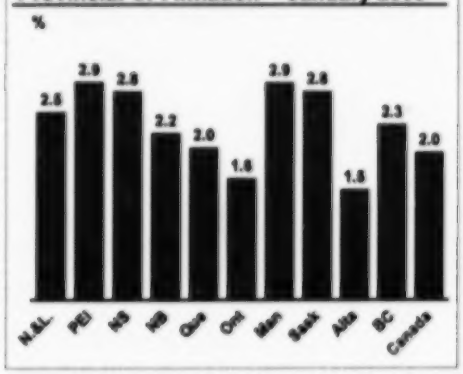
Consumer Prices

January 2005	Index (1992=100)	% Change since last month	% Change since last year
All Items CPI	125.3	-0.1	2.0
Food	126.8	-0.3	2.5
Shelter	122.4	0.1	3.1
Household operations	115.3	0.0	0.3
Clothing & Footwear	100.0	-0.8	-2.2
Transportation	146.3	0.3	2.9
Health & Personal Care	119.0	-0.1	1.1
Recreation, Educ. & Reading	125.5	-1.1	0.2
Alcohol & Tobacco	145.1	0.4	3.1
Excl. 8 Most Volatile/Indirect Taxes	125.1	-0.1	1.6
Energy	149.1	1.2	7.3
Commodity Prices (February 2005)			
Index, 1982-90=100	157.7	2.5	16.7
Excluding Energy	131.3	3.8	9.5
Energy	201.9	1.2	25.9

Consumer Price Index



Provincial CPI Inflation -- January 2005



Short-term and Long-term Interest Rates

The U.S. short-term rate rose further in March...

- The Bank of Canada kept the target for the overnight rate unchanged at 2.5% on March 1, as developments since its January *Monetary Policy Report Update* point to continued low inflation and moderate economic growth in the near-term. On the other hand, new evidence of upward pressure on inflation in the United States in part led the Federal Reserve to continue raising the fed funds rate on March 22. Since June 2004, the Fed has raised the fed funds rate 175 bps to 2.75%.

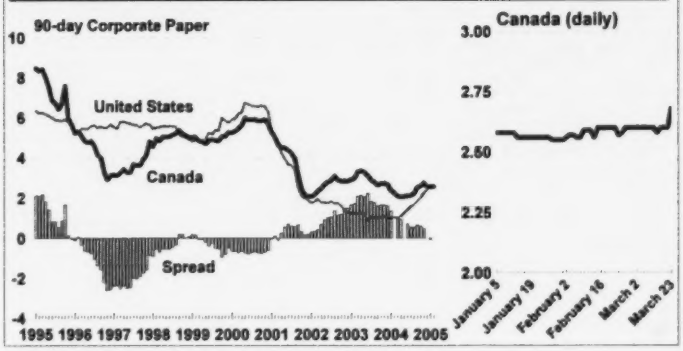
- Canadian short-term rates were stable at 2.6% from mid-February to mid-March. Meanwhile, U.S. rates rose steadily from 2.7% on February 15 to 3.0% on March 21, and the negative spread between Canada-U.S. rates widened from about -10 bps to -35 bps.

...and North American long-term yields gained some ground

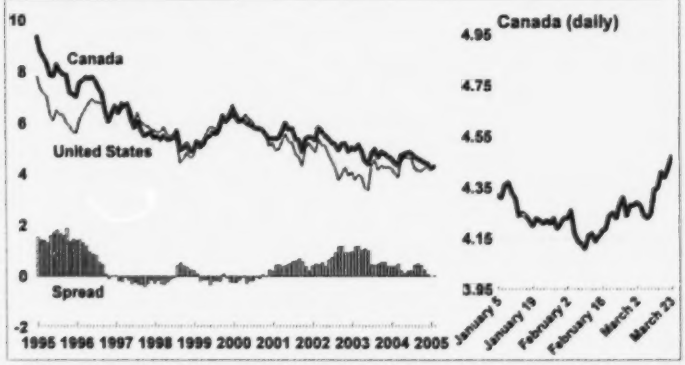
- Evidence of inflationary pressure, due in part to rising oil prices in recent weeks, contributed to higher long-term rates since Federal Reserve Board Chairman Alan Greenspan termed the low level of long-term bond yields a "conundrum" in mid-February. In the U.S., 10-year yields were 4.53% on March 21, up over 55 bps from February 9. Likewise, yields in Canada rose 27 bps from a recent low in February to 4.38% on March 21, and the spread on long-term yields was about -15 bps, down from 2 bps in mid-February.

- Mortgage rates remained stable in March. One-year mortgage rates were 4.80% on March 16, and five-year mortgage rates held at 6.05%.

Short-term Interest Rates



Long-term Bond Yields



Key Market Rates

(end of period)	90-day Corporate Paper	*spread against U.S.*	Long Bond Yield	*spread against U.S.*
2003	2.66	1.62	4.66	0.39
2004	2.57	N/A	4.39	0.06
September	2.50	0.65	4.58	0.48
October	2.60	0.59	4.52	0.41
November	2.74	0.49	4.44	0.24
December	2.57	N/A	4.39	0.06
January	2.56	-0.04	4.21	0.00
February	2.57	N/A	4.28	0.01
March 23 *	2.68	-0.31	4.47	-0.14

A positive spread indicates that Canadian rates are above their U.S. counterparts. * Bank of Canada's Weekly Financial Statistics

Key Lending Rates

(end of period)	Overnight Rate	Prime Lending Rate	Mortgage Rate 1 year	Mortgage Rate 5 year
2003	2.75	4.50	4.75	6.45
2004	2.50	4.25	4.80	6.05
September	2.25	4.00	4.80	6.30
October	2.50	4.25	4.90	6.40
November	2.50	4.25	5.00	6.30
December	2.50	4.25	4.80	6.05
January	2.50	4.25	4.80	6.05
February	2.50	4.25	4.80	6.05
March 23 *	2.50	4.25	4.80	6.05

* Bank of Canada's Weekly Financial Statistics

Exchange Rates and Stock Prices

The Canadian dollar rose in March

- The Canadian dollar rose 3.8% from its recent low on February 7 (US¢79.6) to close at US¢82.6 on March 21, despite a negative and widening spread between Canadian and U.S. interest rates. The rise was due mostly to weakness in the U.S. dollar. As well, higher oil prices in recent weeks have provided some support to the loonie.

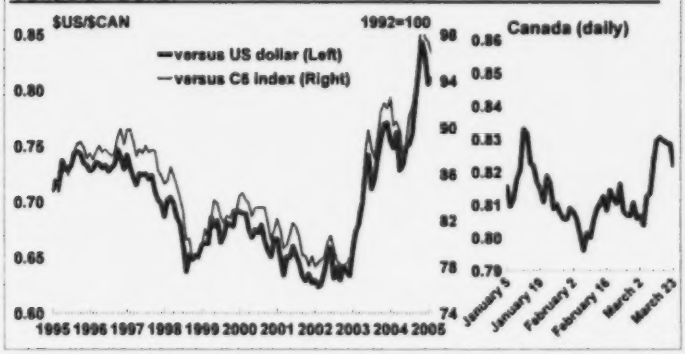
- The Canadian dollar appreciated vis-à-vis the euro and the Japanese yen in recent weeks. The loonie gained 2.7% against the euro from March 1 to March 21, and 3.3% against the yen from March 1 to 21.

North American stock indices retreated somewhat among rising long-term interest rates

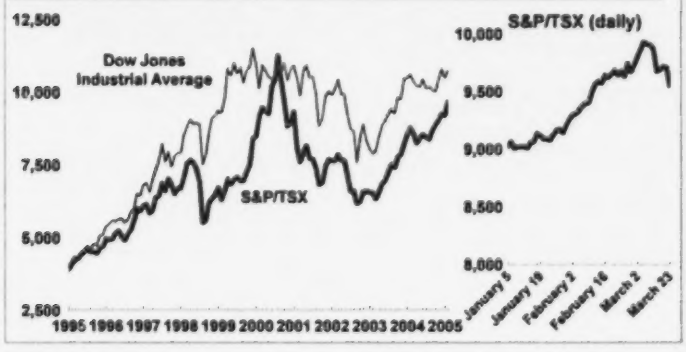
- The S&P/TSX index closed at 9,694 on March 21, down 2.3% from March 4 (9,927), but about the same compared to mid-February. Most sub-indices rose in February with energy, metals & mining, materials, and financials posting significant monthly gains.

- The Dow Jones closed at 10,565 on March 21, down from 10,941 on March 4, and its lowest level since February 1. Higher long-term bond yields contributed to a moderation in the upward momentum in equity markets.

Canadian Dollar



Stock Market Indices



The Canadian Dollar

(close)	$US vs. $CAN	Index vs. C-6 (92=100)	$CAN vs. EURO	yen vs. $CAN
2003	0.7713	91.65	1.628	82.86
2004	0.8319	97.74	1.629	85.27
September	0.7926	93.52	1.569	87.21
October	0.8210	96.36	1.559	86.88
November	0.8432	99.92	1.577	86.76
December	0.8319	97.74	1.629	85.27
January	0.8057	97.41	1.618	83.49
February	0.8107	96.40	1.633	84.75
March 23	0.8220	98.53*	1.579	87.21

* Bank of Canada's Weekly Financial Statistics

Key Stock Market Indexes

	February Close	% change from last month	% change from last year
S&P/TSX	**9,668**	**5.0**	**10.0**
Energy	236	12.3	40.9
Metals & Mining	320	22.2	38.8
Utilities	164	-2.4	7.6
Materials	175	9.4	12.5
Industrial	79	2.2	1.2
Financial	157	4.1	11.6
Gold	208	5.6	-1.3
Telecommunication	76	1.9	11.9
Information Technology	28	-6.2	-20.4
Consumer Discretionary	95	1.8	5.8
Consumer Staples	204	2.1	15.7
S&P 500	**1,203.6**	**1.9**	**5.1**
Dow Jones	**10,766**	**2.6**	**1.7**

U.S. Economic Trends

Fourth quarter economic growth and labour productivity were revised up

- According to preliminary estimates, real gross domestic product (GDP) increased at an annual rate of 3.8% in the fourth quarter, 0.7 percentage point higher than the advance estimate. Exports, inventory and business fixed investment were revised upward. Moreover, labour productivity in the business sector increased 3.7% in the fourth quarter, 1.2 percentage points higher than advance estimates. Meanwhile, productivity in the non-farm business sector rose 2.5%, compared to an advance estimate of 0.8%. In 2004, business and non-farm business labour productivity both rose 4.0%.

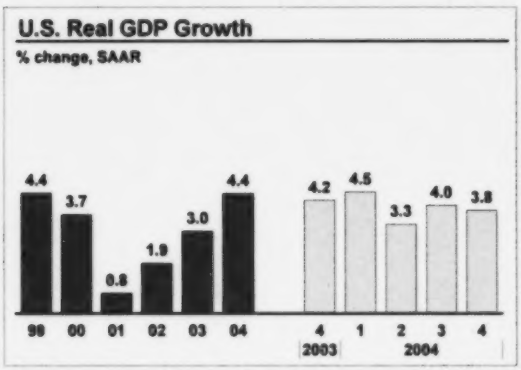
Employment increased strongly in February...

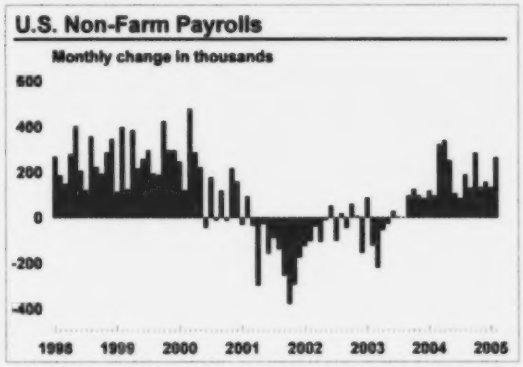
- Non-farm employment increased by 262,000 in February, following average employment gains of 140,000 in the previous three months. Gains were led by professional and business services and the government sector. The unemployment rate rose to 5.4% in February from 5.2% in January as more people entered the labour force.

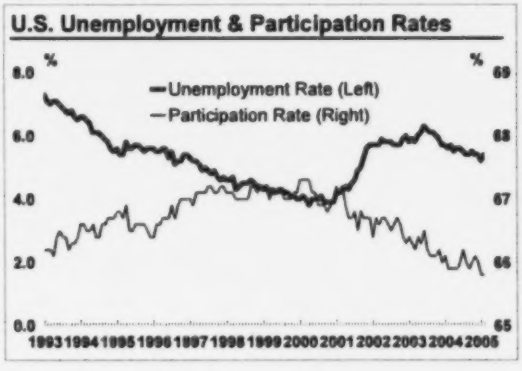
...and recent indicators point to continued growth

- Shipments of manufactured durable and non-durable goods rose 1.1% and 1.8%, respectively, in January. Both shipments of manufactured durable and non-durable goods reached their highest level since the series began in 1992.

- The Institute of Supply Management (ISM) manufacturing index edged down to 55.3 in February from 56.4 in the previous month while the non-manufacturing index rose to 59.8. According to the ISM, these developments are consistent with real GDP growth of 4-5% in the first quarter.







Source: U.S. Bureau of Economic Analysis & U.S. Bureau of Labor Statistics

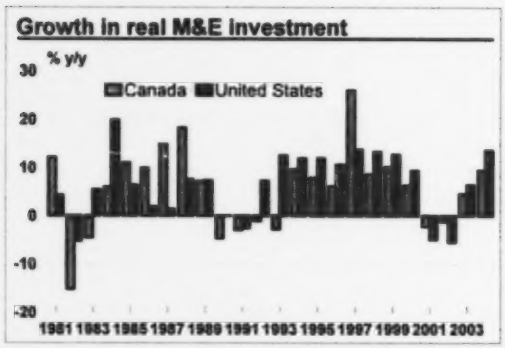
Investment in Machinery & Equipment

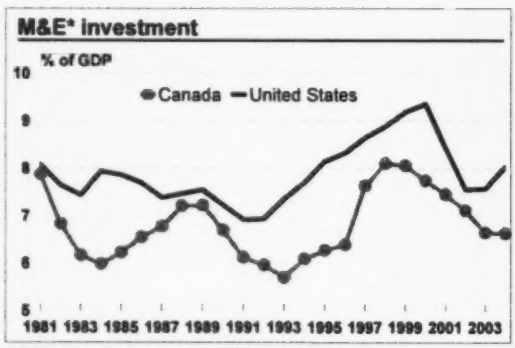
Investment in machinery & equipment grew strongly in 2004 amid rising profits

- Real investment in M&E rose by 9.4% in 2004, reflecting rising profits, declining M&E prices and high industrial capacity utilization rates. Investment in M&E grew even faster in the U.S. (13.5%). The ratio of M&E investment to GDP rose to 8.0% in the U.S. while it stayed at 6.6% in Canada. Over the 1981-2004 period, the ratio has been consistently higher in the U.S. than in Canada, averaging 7.9% and 6.8% respectively. On the other hand, the ratio of investment in non-residential structures to GDP has generally been higher in Canada. In 2004, the ratio was 4.2% in Canada compared to 2.4% in the U.S., slightly below the average over the 1981-2004 period. These trends reflect by and large structural differences in the two countries as well as factors influencing the cost of capital such as taxes, regulation in products and labour markets and real interest rates.

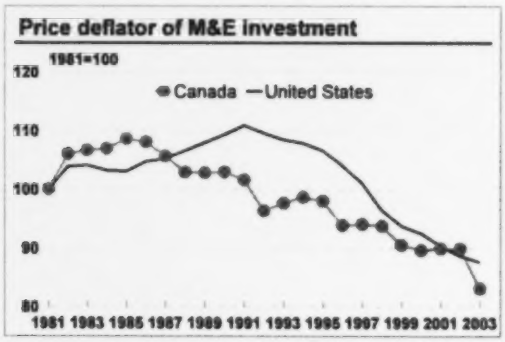
- Recent studies have focused on both the reasons behind the investment gap and the consequences for Canada. A research paper released by the Department of Finance* in 1997 suggested that Canadian under-investment in M&E relative to the U.S. could be partly explained by a higher cost of capital due to higher real interest rates and a disadvantaging tax structure. In a paper by Someshwar Rao et al. ** it was estimated that the capital intensity gap accounted for at least 12% of the Canada-U.S. business sector productivity gap in 2000. Moreover, in a recent study by the Institute for Competitiveness and Prosperity***, it was estimated that the investment gap was responsible for part of the gap between real per capita income in the U.S. and Canada, which has widened from $1,800 in 1981 to $7,200 in 2003.

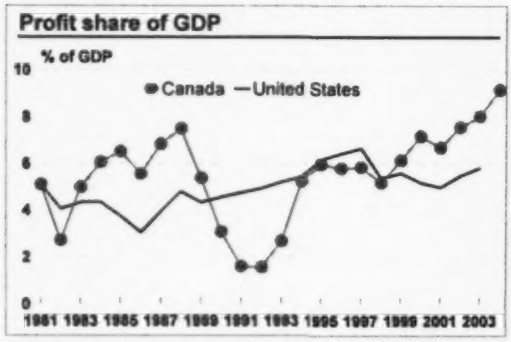
* Department of Finance, *Taxes, the Cost of Capital, and Investment: A Comparison of Canada and the United States*, 1997
** International Productivity Monitor, Someshwar Rao, Jianmin Tang and Weimin Wang, Fall 2003
*** Institute for Competitiveness and Prosperity: Realizing Canada's Prosperity Potential, January 2005





National accounts basis, GDP at market prices.





Investment in Machinery & Equipment

...and prospects are for continued strong growth in investment

- According to the March Consensus Forecast, in Canada, real investment in M&E is expected to increase 10.5% in 2005 and 8.6% in 2006. In the United States, business investment is expected to rise 10.1% in 2005 and 7.5% in 2006. The continued strong investment growth reflects, in part, higher corporate profits and high capacity utilization rates. In 2004, in Canada, after-tax corporate profits as a share of GDP reached a record high of 9.1%.

- Based on Statistics Canada's *Private and Public Investment in Canada* survey of 2005, total investment (including housing) is expected to increase 6.0% to 258.6 billion in 2005, following an increase of 8.5% in 2004. Excluding housing, which is expected to remain flat in 2005, investment is expected to rise 8.4% (to $188.3 billion) in 2005, following a 6.4% increase in 2004. This reflects growth in both non-residential construction (10.2% to $88.5 billion) and M&E (6.9% to $99.8 billion).

- Not all industries are increasing their M&E investments at a similar pace. M&E investment growth ranges from 17.3% for manufacturing to a decline of 9.4% for educational services industries. Among industries expecting to lower their M&E investment, M&E represents a small part of educational services capital investment and the 7.7% decline in M&E investment in professional scientific and technical services comes on the heel of a 14.2% increase in 2004.

- Non-conventional oil extraction explains, in part, increased investment in the mining and oil and gas extraction sector, as sustained high prices have allowed many projects to proceed. Moreover, increased energy prices are reflected in manufacturing M&E investment: in the past 10 years, refineries' M&E investment accounted for 5.3% of manufacturing M&E investment while in the 2003-05 period, they accounted for 10.7%.

- On a provincial basis, the largest increases are expected in Ontario (+8.8% or $3.3 billion), followed by British Columbia (7.5% or $700 million). Alberta and Quebec are both expected to increase M&E investment by about $600 million and rank third and fourth.

- Sustained high levels of M&E investment in Canada are expected in the next couple of years, in line with high profits, declining prices for M&E, and the competitive pressures to raise productivity performance.

Recent M&E capital expenditures, selected industries

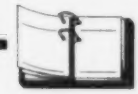
	Level (billions of current $)			Growth (%)	
	2003	2004*	2005**	2003-04	2004-05
Total	88.1	93.4	99.8	6.0	6.9
Agriculture, forestry, fishing and hunting	3.1	3.1	3.2	-1.3	3.6
Mining and oil and gas extraction	5.8	6.2	6.8	6.2	10.7
Utilities	3.8	4.2	4.7	12.2	12.1
Construction	3.3	3.5	3.6	6.9	3.2
Manufacturing	16.6	16.9	19.9	1.7	17.3
Wholesale trade	3.0	3.3	3.4	9.4	3.6
Retail trade	3.8	4.0	4.0	5.5	0.6
Transportation and warehousing	6.6	6.9	7.4	3.9	7.1
Information and cultural industries	5.8	6.7	6.8	15.7	1.7
Finance and insurance	12.4	13.6	14.8	9.8	9.1
Real estate and rental and leasing	7.9	8.2	8.5	4.0	4.0
Professional, scientific and technical services	2.9	3.3	3.1	14.2	-7.7
Educational services	1.9	1.8	1.6	-4.8	-9.4
Health care and social assistance	2.2	2.6	2.7	18.0	1.1
Public administration	4.9	4.8	5.0	-2.8	4.5

* Preliminary
**Intentions
Note: percentages are calculated using unrounded numbers.

Sources: Statistics Canada, Department of Finance (Canada), Bureau of Economic Analysis (United States).

COMING UP

Key Future Data Releases and Planned Events



CANADA

Consumer Price Index - February	March 23
Real GDP by Industry - January	March 31
Labour Force Survey - March	April 8
Key Policy Interest Rate Announcement	April 12
Canadian International Merchandise Trade - February	April 12
Monthly Survey of Manufacturing - February	April 15
Financial Statistics for Enterprises - 1st Quarter 2005	May 26
Balance of International Payments - 1st Quarter 2005	May 30
National Economic and Financial Accounts - 1st Quarter 2005	May 31

UNITED STATES

Consumer Price Index - February	March 23
GDP - 4th Quarter 2004 (final)	March 30
The Employment Situation - March	April 1
International Trade in Goods and Services - February	April 12
Consumer Price Index - March	April 20
Federal Open Market Committee Meeting	May 3

Note: The March 2005 MEI uses data available as of March 21, 2005

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Monthly Economic Indicators

April 2005

The "Monthly Economic Indicators" (MEI) provides a variety of economic analysis and data in a convenient format. The MEI does not interpret or evaluate government policies, and every attempt is made to present factual information in an informed and balanced manner consistent with generally accepted economic principles. It is available to all employees of Industry Canada in either hard or electronic copy, or can be accessed via the Internet at http://strategis.ic.gc.ca/epic/internet/ineas-aes.nsf/en/h_ra01898e.html

Canada

HIGHLIGHTS

- ***Real Gross Domestic Product (GDP) rose a further 0.2% in January, mostly due to strong retail sales and solid gains in the manufacturing sector.***

- ***Employment was essentially flat (4,000) in March and the unemployment rate fell to 6.9%. Employment is up 0.2% since December, following a rise of 0.4% in the previous three months.***

- ***Real merchandise exports were up 0.5% and imports decreased 1.7% in February, resulting in a partial recovery in the trade surplus.***

- ***Overall, recent developments point to continued moderate growth in the first quarter, driven by domestic demand and continued drag from net exports.***

- ***The Bank of Canada kept the overnight rate unchanged at 2.5% and revised its growth outlook for 2005 to 2.6% from 2.8%.***

- ***In the United States (U.S.), the Federal Reserve raised its Fed funds rate by a further 25 basis points to 2.75% on March 22 and hinted at raising it at a similar pace in the coming months.***

- ***The Canadian dollar lost some ground in April as oil prices pulled back from their record high and the negative spread between Canada and U.S. interest rates widened.***

Key Monthly Economic Indicators

		% Change since last month	% Change since last year	
Real GDP ($97 B)	1,061.4	0.2	3.2	Jan.
Goods	333.9	0.1	3.3	Jan.
Services	728.6	0.3	3.2	Jan.
Composite Index	201.3	0.0	5.6	Feb.
Employment (000's)	16,088	0.0	1.6	Mar.
Full-time	13,088	-0.2	1.4	Mar.
Part-time	3,000	1.1	2.5	Mar.
Unemployment* (%)	6.9	7.0	7.3	Mar.
Youth*	12.6	12.3	14.0	Mar.
Adult*	5.8	6.0	6.0	Mar.
CPI inflation*	2.1	2.0	0.7	Feb.
Retail Sales ($M)	29,820	2.0	7.9	Jan.
Housing Starts (000's)**	218.5	0.3	-12.7	Mar.
Trade Balance* ($M)	4,845	4,285	5,422	Feb.
Exports	36,537	1.4	6.5	Feb.
Imports	31,692	-0.2	9.7	Feb.
M&E	8,912	1.5	4.5	Feb.

	April 13 ***	March 2005	March 2004
3-mth Corp. paper (%)*	2.60	2.68	2.10
Long bond yield (%)*	4.19	4.39	4.33
Canadian dollar (US¢)*	80.74	82.67	76.26

*Data in levels only – % change not reported
**Canada Mortgage and Housing Corporation
***Bank of Canada's Weekly Financial Statistics
All other data from Statistics Canada

The "Monthly Economic Indicators" (MEI) provides a variety of economic analysis and data in a convenient format. The MEI does not interpret or evaluate government policies, and every attempt is made to present factual information in an informed and balanced manner consistent with generally accepted economic principles. It is available to all employees of Industry Canada in either hard or electronic copy, or can be accessed via the Internet at http://strategis.ic.gc.ca/epic/internet/ineas-aes.nsf/en/h_ra01898e.html

MONTHLY ECONOMIC INDICATORS
April 2005

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This issue uses data available as of April 15, 2005. It has been prepared by Jean-François Arsenault, Éric Chalifoux, Stéphane Crépeau, Kevin Koch, Sue Moore and François Rimbaud of the Micro-Economic Analysis Directorate, under the direction of Hossein Rostami. Translation has been provided by Lucie Larocque and Sue Hopf is responsible for production support.

Sources of information primarily include Statistics Canada, as well as the Bank of Canada, Canada Mortgage and Housing Corporation, Canadian Real Estate Association, Conference Board of Canada, U.S. Bureau of Economic Analysis, and U.S. Bureau of Labor Statistics. Unless cited otherwise, data contained in graphs and tables are derived from Statistics Canada.

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ISSN 1495-4516

Real GDP by Industry

Economic activity grew further in January...

- Real GDP at basic prices rose 0.2% in January following an increase of 0.2% in December. Growth was mainly driven by strong retail sales and a healthy increase in manufacturing. The business sector rose 0.3% in January, outpacing the public sector. Moreover, real GDP was up 2.0% (annual rate) from its fourth quarter level, suggesting continued growth in the first quarter. According to the April Consensus Forecasts, real GDP is expected to rise 2.6% in 2005 and 2.9% in 2006.

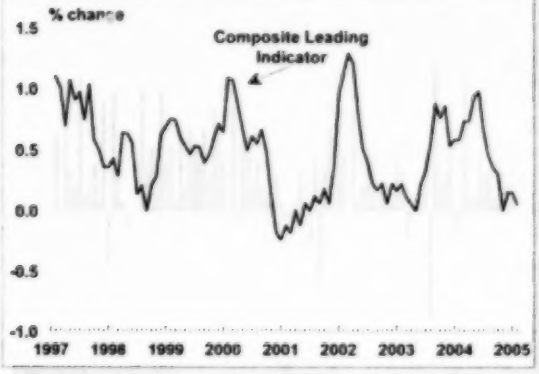
...with the goods sector reporting mixed results...

- Goods production was up only 0.1% in January after rising 0.4% in December. Solid gains in manufacturing (0.6%) and a slight increase in the mining, oil & gas sector (0.1%) were moderated by a 1.3% drop in utilities and declines in both construction (0.5%) and agriculture (0.6%). Manufacturing benefited from strong demand for aerospace products and heavy-trucks while output in the mining sector suffered from continued oil production difficulties and utilities retreated due to mild weather in January. Production in the construction sector declined for the first time in seven month as both residential (0.8%) and non-residential (1.1%) construction decreased. On a year-over-year basis, goods-producing industries grew 3.3%, up from 3.2% in December.

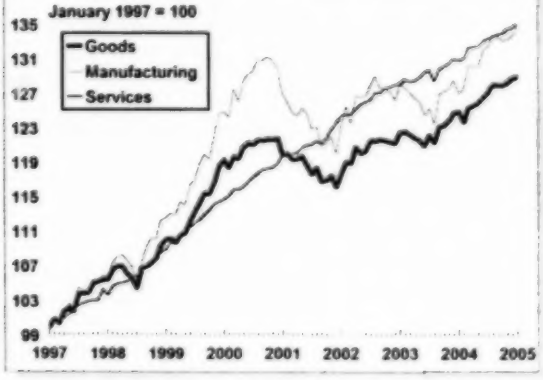
...and the service sector continuing to grow

- Service output increased 0.3% in January after rising 0.2% in December. Robust retail trade (2.3%) and continued strength in FIRE activities (0.3%) were the main contributors. Retailers bounced back as consumers redeemed their Christmas holiday gift cards and the strike in Quebec liquor store came to an end. However, wholesale activity declined 0.4% in January, affected particularly by weak motor vehicles wholesaling due to dealers working down their inventories built in November and December. Wholesale trade excluding motor vehicles advanced 0.4% in January.

Real GDP at Basic Prices



Real GDP by Major Sector



Real GDP at Basic Prices (1997 chained dollars)

January 2005	$ millions	monthly change	% Change since last month	% Change since last year
Total Economy	**1,061,426**	**2,427**	**0.2**	**3.2**
Business Sector	**903,500**	**2,332**	**0.3**	**3.6**
Goods-producing	**333,922**	**427**	**0.1**	**3.3**
Agri., Forest, Fish, Hunt*	24,187	-134	-0.6	1.5
Mining & Oil & Gas Extraction	37,883	53	0.1	-0.6
Utilities	26,647	-341	-1.3	-0.3
Construction	59,144	-309	-0.5	1.8
Manufacturing	185,931	1,182	0.6	5.9
Services-producing	**728,622**	**2,026**	**0.3**	**3.2**
Wholesale Trade	68,175	-256	-0.4	7.4
Retail Trade	61,053	1,360	2.3	6.5
Transportation & Warehousing	51,004	31	0.1	4.1
Information & Cultural	43,935	229	0.5	4.5
FIRE**	213,545	606	0.3	3.5
Professional***	46,657	153	0.3	2.0
Admin. & Waste Mgmt	22,165	33	0.1	2.0
Education	45,637	57	0.1	2.0
Health & Social	63,041	-48	-0.1	0.8
Arts, Entertain. & Recreation	9,395	-91	-1.0	-2.1
Accommodation & Food	23,589	-130	-0.5	1.4
Other	24,713	-5	-0.0	1.2
Public Administration	57,486	130	0.2	0.9

*Agriculture, Forestry, Fishing & Hunting
**Finance, Insurance & Real Estate
***Professional, Scientific & Technical services

Consumer Spending and Attitudes

Early signs point to sustained rise in consumption...

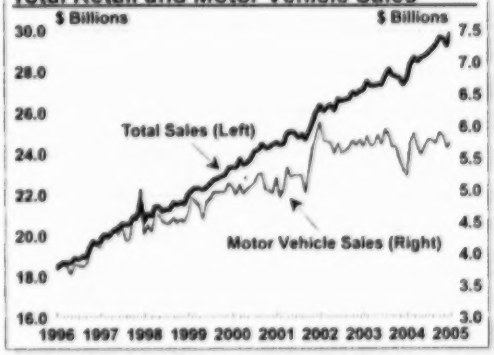
- Real retail sales rose 2.3% in January, following a 1.3% decline in December. Real retail sales are now 5.1% (annual rate) above their average fourth quarter level.
- New motor vehicle sales jumped 12.8% in February following a 2.3% decline in January. While preliminary data from the industry indicate a 7.0% decline in March, sales would still rise 4.0% in the first quarter, following a 6.6% increase in the fourth.

...amid rising consumer confidence and personal wealth

- Consumer confidence recovered in March, rising 3.1 points to 124.5, following a 2.8 point decline in February. This is above its 10-year average* of 113.8. The recovery reflected an increase in the number of people who felt the time was right for big-ticket purchases and as a more optimistic view of the employment situation.
- Personal net worth rose 4.0% in the fourth quarter, following a 1.4% increase in the third.
- Employment rose further (0.6%) in the first quarter, following a 1.5% increase in the fourth.
- High confidence, rising wealth and employment bode well for sustained consumption.

* The average is based on quarterly data as the monthly survey started in December 2001.

Total Retail and Motor Vehicle Sales



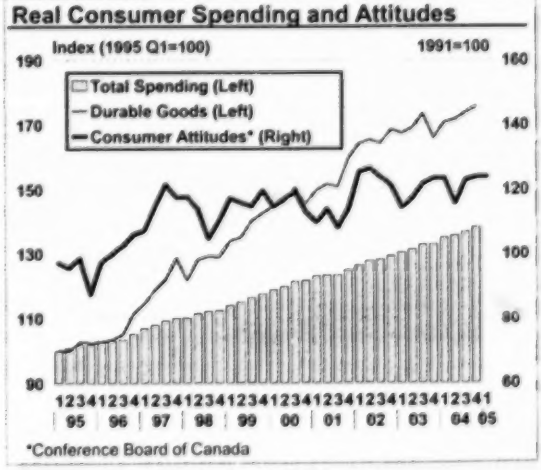
Retail Sales and Consumer Credit

January 2005	$ millions	% Change since last month	% Change since last year
Total Retail Sales (S.A.)	29,820	2.0	7.9
Food	5,909	1.3	6.8
Drug Stores	1,962	2.6	5.0
Clothing	1,706	0.2	3.1
Furniture	1,944	2.6	7.4
Automotive	9,950	0.5	11.6
General Merch. Stores	3,666	4.9	5.2
All other Stores	4,684	3.9	7.0
Total ex. motor vehicles	22,809	2.4	7.2
Consumer Credit	272	0.8	10.6

Real Consumer Spending and Household Finances

$ Millions, SAAR (unless otherwise noted)	2003	2004	2004 Q3	2004 Q4
Real Consumption (97$)	620,444	641,863	643,833	650,300
% change	*3.1*	*3.5*	*3.6*	*4.1*
Durable Goods	94,923	97,156	97,669	98,601
% change	*2.0*	*2.4*	*5.3*	*3.9*
Semi-Durable Goods	56,142	59,285	60,047	60,031
% change	*3.1*	*5.6*	*8.4*	*-0.1*
Non-Durable Goods	140,078	143,453	143,511	145,274
% change	*2.1*	*2.4*	*2.9*	*5.0*
Services	330,098	342,878	343,636	347,336
% change	*3.9*	*3.9*	*2.8*	*4.4*
Disposable Income	713,548	741,230	744,116	752,180
% change	*3.0*	*3.9*	*2.6*	*4.4*
Saving Rate (%)	1.4	0.4	0.3	0.0
Debt-to-Income Ratio (%)	101.6	104.6	105.1	105.8

Real Consumer Spending and Attitudes



*Conference Board of Canada

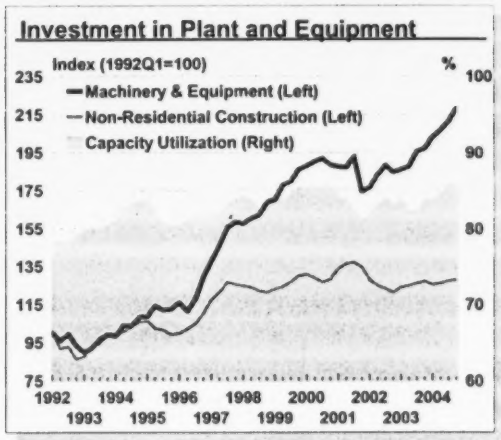
Business Investment

Investment in Machinery & Equipment (M&E) is poised to rise further in the first quarter...

- Assuming no growth in March, real imports of M&E will increase 7.0% in the first quarter, following a 16.6% increase in the fourth.
- Shipments of machinery rose 2.1% in February, following a surge of 7.6% in January. Assuming no growth in March, shipments of machinery will rise 33.2% in the first quarter. New orders of machinery rose 5.4% in February, and 18.8% in January, suggesting an increase in March.
- While these developments point to a further increase in M&E investment, real business investment in non-residential construction declined 0.9% in the first quarter, following a 2.9% increase in the fourth. The decline was the result of lower (3.0%) commercial construction as industrial construction rose 6.0%.

...and prospects are good for sustained growth in 2005

- According to the latest (Spring) *Business Outlook Survey* by the Bank of Canada, M&E investment intentions remain strong and are focused on industries where capacity constraints are more pressing. Meanwhile, manufacturers' intentions continue to be oriented towards productivity enhancing investment.
- The April Consensus Forecast expects real M&E investment to rise 11.0% in 2005, following a 9.4% increase in 2004.



Business Investment and Corporate Finances

$ Millions, SAAR (unless otherwise noted)	2003	2004	2004 Q1	2004 Q2	2004 Q3	2004 Q4
BUSINESS INVESTMENT						
Machinery & Equipment (1997$)	86,441	94,598	91,569	93,153	95,206	98,464
% change	*4.5*	*9.4*	*12.5*	*7.1*	*9.1*	*14.4*
Non-residential Construction (1997$)	44,928	45,361	44,900	45,177	45,589	45,777
% change	*1.0*	*1.0*	*-5.2*	*2.5*	*3.7*	*1.7*
Capacity Utilization (%, Non-farm goods)	83.0	85.0	83.7	84.6	85.7	86.0
Capacity Utilization (Mfg. sector)	83.0	87.0	84.5	86.4	88.5	88.5
CORPORATE FINANCES & ATTITUDES						
Corporate Operating Profits	172,118	204,505	194,124	205,304	206,828	211,764
% change	*14.8*	*18.8*	*39.3*	*25.1*	*3.0*	*9.9*
Profits - Non-financial industries	128,203	154,083	142,732	155,416	155,632	162,552
% change	*10.7*	*20.2*	*38.4*	*40.6*	*0.6*	*19.0*
Profits - Financial industries	43,915	50,421	51,392	49,888	51,192	49,212
% change	*28.5*	*14.8*	*42.1*	*-11.2*	*10.9*	*-14.6*
Business Credit	904,391	940,499	920,080	933,069	948,344	960,502
% change	*1.6*	*4.0*	*3.9*	*5.8*	*6.7*	*5.2*

Housing

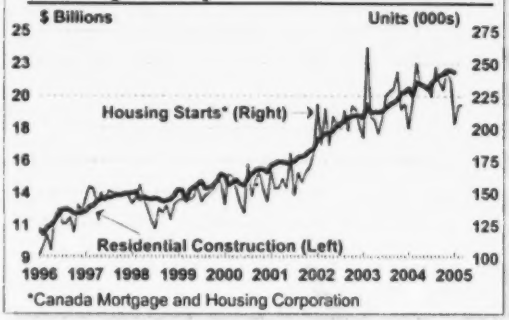
Housing starts declined in the first quarter...

- Housing starts declined 34.4% in the first quarter, following a 1.6% increase in the fourth.
  - The weakness occurred early in the quarter. Following a 13.9% decline in January, housing starts partially recovered in both February (7.0%) and March (0.3%).
- On a provincial basis, in March, strength in British Columbia and Alberta offset weakness in Quebec and Ontario.
- The sale of existing homes (in major markets) rose 1.5% in the first quarter, following a 10.2% decline in the fourth.
  - The quarter's strength was the result of a 2.6% increase in February, as sales of existing homes registered declines in both January (0.5%) and March (1.0%).

...and prospects are for a cooling off if the housing market

- New house prices have been rising at a slower pace. The annual rate of increase in the new housing price index stood at 5.6% in February 2005. It has been trending downward since June 2004 when it rose 7.3%.
- The April Consensus Forecast expects housing starts to average 209,000 in 2005, down from 233,000 in 2004.

Housing Activity



*Canada Mortgage and Housing Corporation

Monthly Housing Indicators

	Levels	Change since Last month	Change since Last year
Residential Construction (1)* ($97M, basic prices)	21,874	-0.8%	5.1%
Building Permits, $M (2)*	3,375	11.8%	21.4%
Sales of Existing Homes (3)** (# of units, major markets)	26,316	-270	-2,126
Housing Starts, (3)*** (# of units, SAAR)	218,500	700	-31,700
Newfoundland & Labrador	2,600	-1,200	0
Prince Edward Island	1,300	0	400
Nova Scotia	3,800	-600	-6,100
New Brunswick	3,400	900	900
Quebec	50,100	-3,700	-17,100
Ontario	76,800	-1,600	-14,600
Manitoba	5,300	1,200	1,200
Saskatchewan	2,300	-300	-1,300
Alberta	38,900	2,700	2,700
British Columbia	34,000	3,300	2,200

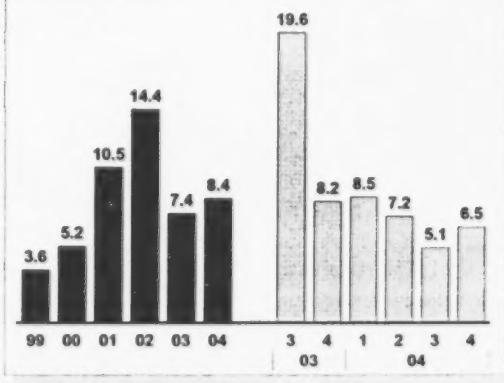
1 - January data; 2 - February data; 3 - March data
Sources: *Statistics Canada; **Canadian Real Estate Association; ***Canada Mortgage and Housing Corporation

Real Investment in Residential Structures

$97 Millions, SAAR (unless otherwise noted)	2003	2004	2004 Q3	2004 Q4
Residential Construction	62,452	67,681	68,119	69,205
% change	*7.4*	*8.4*	*5.1*	*6.5*
New Housing	30,678	33,317	33,539	34,165
% change	*6.2*	*8.6*	*7.2*	*7.7*
Alterations & Improvements	22,619	24,627	24,804	25,688
% change	*9.8*	*8.9*	*12.8*	*15.0*
Ownership & Transfer Costs	9,204	9,830	9,872	9,576
% change	*6.5*	*6.8*	*-13.5*	*-11.5*

Growth in Real Residential Construction

% change, SAAR



Trade and Competitiveness

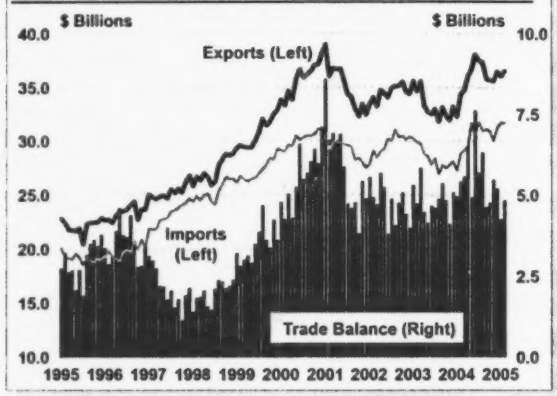
Exports increased while imports decreased in February...

- Merchandise exports increased 1.4% in February, after declining 1.2% in January. Wheat exports rose 40.1% as a result of increased demand from Asia and Latin America. Exports to the U.S. were up 1.5% while exports to non-U.S. destinations rose 0.9%. Overall, export volumes were up 0.5% while prices increased 0.9%.
  - Exports have been volatile in recent months, but are now 4.0% below their recent peak in June 2004.
- Imports decreased 0.2% in February after increasing 1.5% in January. Imports of apparel and accessories registered a record high, as a result of increased volumes from China. Imports from the U.S. were down 0.7% while non-U.S. imports rose 1.0%. Overall, import prices were up 1.5% while volumes decreased 1.7%.
  - Despite the decline, imports are near their peak of $31.8 billion in July 2004.

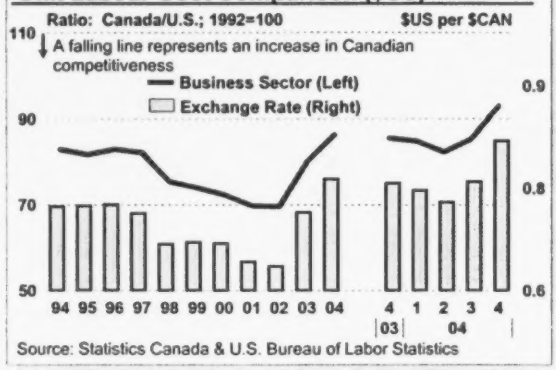
...pushing the trade surplus higher

- Canada's trade surplus increased by $0.6 billion to $4.8 billion in February. The trade surplus with the U.S. rose by $0.6 billion to $8.7 billion and the trade deficit with other countries increased by $42 million to $3.9 billion.
- Assuming no change in March, the real trade surplus would be down from the fourth quarter and a drag on growth again.

Merchandise Trade Flows and Balance



Unit Labour Cost Comparison ($US)



Source: Statistics Canada & U.S. Bureau of Labor Statistics

Merchandise Trade

February 2005	Levels ($ millions)		Year-to-date ($ millions)		Change ($M)	% Change	
	January 2005	February 2005	Jan.-Feb. 2004	Jan.-Feb. 2005	Jan. to Feb. 2005	Jan. to Feb. 2005	Jan.-Feb. 2004 to Jan.-Feb. 2005
Exports	**36,037**	**36,537**	**66,546**	**72,574**	**500**	**1.4**	**9.1**
to United States	29,522	29,965	54,312	59,487	443	1.5	9.5
Imports	**31,752**	**31,692**	**56,145**	**63,444**	**-60**	**-0.2**	**13.0**
from United States	21,387	21,228	39,265	42,615	-159	-0.7	8.5
Trade Balance	**4,285**	**4,845**	**10,401**	**9,130**	**560**		
with United States	8,135	8,737	15,047	16,872	602		
Exports by Commodity							
Agriculture/Fishing Products	2,414	2,530	4,909	4,944	116	4.8	0.7
Energy Products	5,918	5,992	10,216	11,910	74	1.3	16.6
Forestry Products	3,113	3,178	5,926	6,291	65	2.1	6.2
Industrial Goods & Materials	6,952	7,067	11,863	14,019	115	1.7	18.2
Machinery & Equipment	7,462	7,569	14,569	15,031	107	1.4	3.2
Automotive Products	7,509	7,554	14,180	15,063	45	0.6	6.2
Other Consumer Goods	1,473	1,483	2,818	2,956	10	0.7	4.9
Imports by Commodity							
Agriculture/Fishing Products	1,907	1,831	3,437	3,738	-76	-4.0	8.8
Energy Products	2,587	2,549	3,304	5,136	-38	-1.5	55.4
Forestry Products	265	268	475	533	3	1.1	12.2
Industrial Goods & Materials	6,580	6,484	11,029	13,064	-96	-1.5	18.5
Machinery & Equipment	8,778	8,912	16,364	17,690	134	1.5	8.1
Automotive Products	6,618	6,404	12,104	13,022	-214	-3.2	7.6
Other Consumer Goods	4,026	4,105	7,567	8,131	79	2.0	7.5

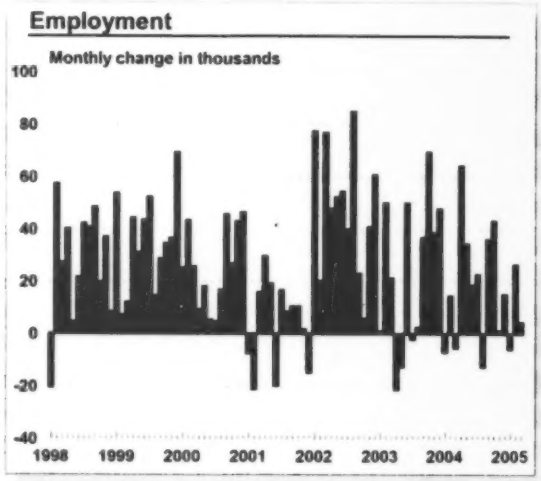
Employment and Unemployment

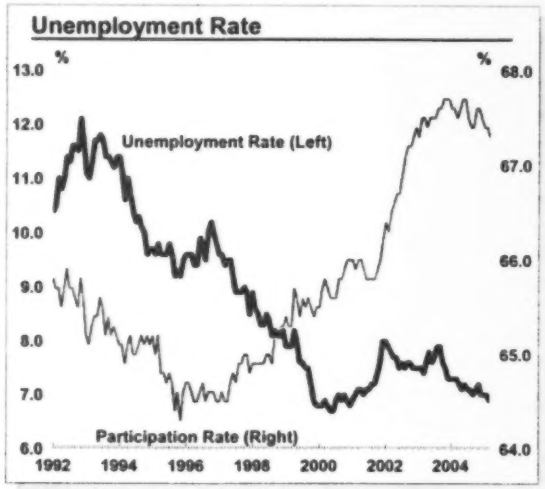
Employment edged up in March...

- Employment edged up 4,000 in March, following a gain of 27,000 in February. Over the first three months of 2005, employment rose 0.2% (or 25,000), following a rise of 0.4% in the previous three months.
- All employment gains were in part-time (34,000), as full-time employment declined 30,000. However, in the last 12 months, 249,000 net jobs have been created, 7 out of 10 in full-time.
- Employment rose again in the public sector (17,000) while it declined in the private sector (13,000). Over the last three months, employment in the public sector has risen 8,000 while paid employment in the private sector has declined 38,000. At the same time, self employment has risen 56,000.
- Youth employment declined 21,000, mostly in full-time. However, youth employment is up 32,000 (or 1.3%) over the past year.

...helping to push down the unemployment rate to 6.9%

- With fewer people looking for work, the national unemployment rate edged down 0.1 percentage point to 6.9% in March, the lowest rate since January 2001.
- Youth's unemployment rate rose 0.3 percentage point to 12.6%.
- The participation rate fell to 67.3%, down 0.4 percentage point from a record high of 67.7% in June.





Labour Force Trends

(in thousands)	Levels			Change since			% Change since	
	2004 March	2005 February	2005 March	last month	last year	year-to-date	last month	last year
Employment	15,839.1	16,084.0	16,088.4	4.4	249.3	25.3	0.0	1.6
Full-time	12,911.1	13,117.8	13,088.3	-29.5	177.2	-10.4	-0.2	1.4
Part-time	2,928.0	2,966.1	3,000.0	33.9	72.0	35.6	1.1	2.5
Youth 15-24	2,421.9	2,474.4	2,453.8	-20.6	31.9	-31.1	-0.8	1.3
Adult 25+	13,417.2	13,609.6	13,634.5	24.9	217.3	56.3	0.2	1.6
Self-employed	2,412.1	2,494.9	2,509.0	14.1	96.9	55.6	0.6	4.0
Unemployment	1,252.3	1,208.5	1,192.7	-15.8	-59.6	-24.2	-1.3	-4.8
Unemployment Rate	7.3	7.0	6.9	-0.1	-0.4	-0.1		
Youth 15-24	14.0	12.3	12.6	0.3	-1.4	-0.1		
Adult 25+	6.0	6.0	5.8	-0.2	-0.2	-0.1		
Labour Force	17,091.5	17,292.5	17,281.0	-11.5	189.5	1.0	-0.1	1.1
Participation Rate	67.5	67.4	67.3	-0.1	-0.2	-0.2		
Employment Rate	62.6	62.7	62.6	-0.1	0.0	-0.2		

Industry Overview

Employment in the Goods sector recovered partially...

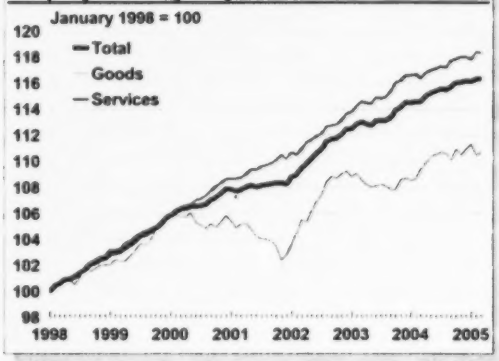
- Employment in the Goods sector rose 11,000 in March, following a decline of 30,000 in February. The gains were concentrated in agriculture (8,000) and utilities (6,000). Nonetheless, agriculture's employment is only up 0.5% compared to March 2004 while employment in utilities is down 6%.

- Manufacturing employment was essentially unchanged in March, but it has fallen by 35,000 over the past 12 months, with most losses in Ontario. Despite small losses in March, employment in natural resources and construction is up 6.6% and 7.8% over the past year.

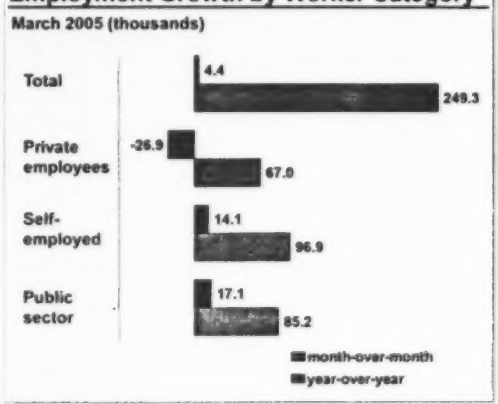
...but edged down in the Services sector

- Employment in the Service sector declined 6,000 in March, following an increase of 57,000 in February. The largest declines were concentrated in accommodation & food services (18,000), transportation & warehousing (14,000), and professional scientific & technical services (15,000), mostly in computer systems design. Despite job losses in professional, scientific & technical services, employment was up 1.6% from 12 months ago. The highest employment increase was in finance, insurance, real estate & leasing (12,000).

Employment by Major Sector



Employment Growth by Worker Category



Industrial Employment Trends

(in thousands)	Levels			Change since			% Change since	
	2004 March	2005 February	2005 March	last month	last year	year-to-date	last month	last year
Goods-producing	3,968.3	4,006.7	4,017.5	10.8	49.2	-6.4	0.3	1.2
Agriculture	331.2	324.8	333.0	8.2	1.8	11.3	2.5	0.5
Natural Resources*	279.8	300.6	298.3	-2.3	18.5	-2.9	-0.8	6.6
Utilities	133.6	119.7	125.6	5.9	-8.0	1.0	4.9	-6.0
Construction	921.1	994.3	993.2	-1.1	72.1	-1.8	-0.1	7.8
Manufacturing	2,302.6	2,267.3	2,267.5	0.2	-35.1	-14.0	0.0	-1.5
Services-producing	11,870.9	12,077.2	12,070.9	-6.3	200.0	31.7	-0.1	1.7
Trade	2,497.5	2,548.5	2,556.2	7.7	58.7	32.0	0.3	2.4
Transportation*	816.8	798.0	783.6	-14.4	-33.2	-3.0	-1.8	-4.1
FIRE*	932.5	989.2	1,000.7	11.5	68.2	16.3	1.2	7.3
Professional/Scientific	1,002.6	1,032.9	1,018.2	-14.7	15.6	-11.6	-1.4	1.6
Business/Building	614.4	635.8	634.0	-1.8	19.6	1.2	-0.3	3.2
Educational Services	1,034.2	1,068.3	1,075.9	7.6	41.7	19.2	0.7	4.0
Health Care/Social Assistance	1,732.2	1,732.0	1,737.1	5.1	4.9	0.7	0.3	0.3
Information/Culture/Recreation	721.7	736.0	744.5	8.5	22.8	11.2	1.2	3.2
Accommodation & Food	1,006.9	1,005.8	987.5	-18.3	-19.4	-29.2	-1.8	-1.9
Other Services	692.0	707.6	699.0	-8.6	7.0	-3.0	-1.2	1.0
Public Administration	820.1	823.2	834.1	10.9	14.0	-2.1	1.3	1.7

*Natural Resources: Forestry, Fishing, Mining, Oil & Gas; Transportation includes warehousing; FIRE: Finance, Insurance, Real Estate & Leasing.

Provincial Overview

Notable gains were recorded in Alberta and Ontario in March...

- Employment rose in all western provinces, but Manitoba. Alberta recorded the highest employment gain (5,000), mostly in part-time. Over the past 12 months, employment has risen in all western provinces, notably in British Columbia (3.3%) and Saskatchewan (2.8%).

- Ontario's employment edged up 7,000 as an increase of 38,000 part-time jobs was offset by a decline of 31,000 in full-time employment. In Quebec, employment declined 5,000 in March, following a 3,000 decline in February.

- Newfoundland & Labrador reported the highest employment gain (2,600) among the Atlantic provinces, recovering from February's losses. Employment in the Atlantic provinces has been relatively unchanged over the last 10 months.

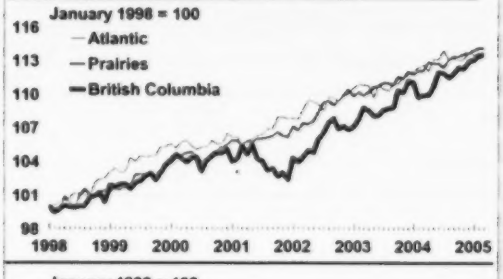
...while the unemployment rate fell significantly in Alberta and British Columbia

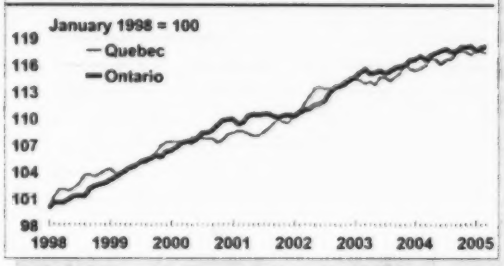
- A small employment gain and decline in the labour force pushed down British Columbia's unemployment rate 0.5 percentage to 6.5%, the lowest in two decades. Alberta's unemployment rate decreased to a 24-year low of 3.5% in March.

- Ontario's unemployment rate edged up to 6.9% as the labour force grew at a faster pace than employment. Quebec's unemployment rate rose to 8.2%.

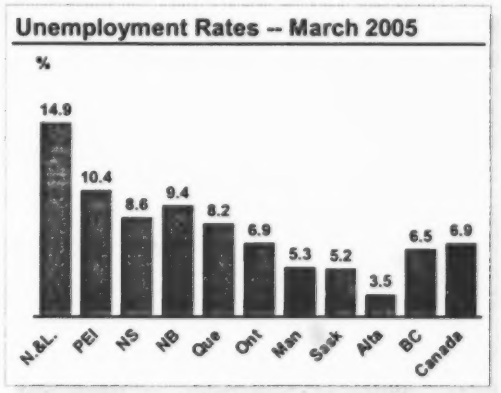
- The unemployment rate declined by 1.2 percentage points to 8.6% in Nova Scotia, as less people sought jobs. The unemployment rate declined to 14.9% in Newfoundland & Labrador while it rose to 10.4% in Prince Edward Island.

Regional employment patterns





Unemployment Rates -- March 2005



Provincial Employment and Unemployment Trends

	Employment (thousands)					Unemployment Rate (%)		
	Levels	Change since last month		Change since last year		Levels	Change since	
	2005 March	(000's)	%	(000's)	%	2005 March	last month	last year
Canada	16,088.4	4.4	0.0	249.3	1.6	6.9	-0.1	-0.4
Newfoundland & Labrador	216.5	2.6	1.2	-0.1	-0.0	14.9	-0.3	-0.7
Prince Edward Island	68.4	-0.3	-0.4	2.6	4.0	10.4	0.2	-1.2
Nova Scotia	443.1	0.3	0.1	5.3	1.2	8.6	-1.2	-0.4
New Brunswick	349.6	-1.6	-0.5	-1.1	-0.3	9.4	0.0	-0.2
Quebec	3,710.8	-5.4	-0.1	44.2	1.2	8.2	0.2	-0.2
Ontario	6,351.4	7.1	0.1	79.7	1.3	6.9	0.1	0.0
Manitoba	576.5	-6.0	-1.0	4.3	0.8	5.3	0.3	0.3
Saskatchewan	489.6	1.3	0.3	13.4	2.8	5.2	0.3	-0.7
Alberta	1,781.6	5.3	0.3	33.6	1.9	3.5	-0.7	-1.2
British Columbia	2,101.0	1.2	0.1	67.5	3.3	6.5	-0.5	-1.2

Consumer and Commodity Prices

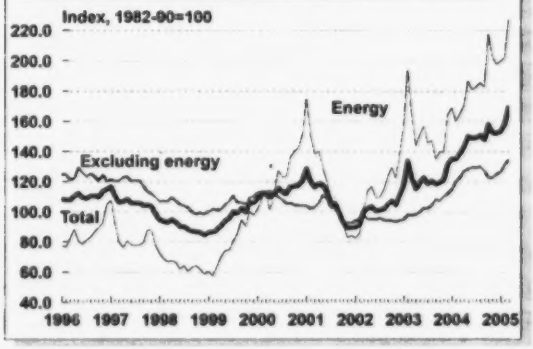
Inflation rose to 2.1% in February...

- On a year-over-year basis, the increase in the Consumer Price Index (CPI) was 2.1% in February, up from 2.0% in January. Excluding energy, inflation was 1.6% in February, up slightly from 1.5% in January.
- Inflation rose in five provinces led by Ontario, Manitoba and Newfoundland and Labrador. Inflation in Alberta remained at 1.5%, the lowest among provinces.
- On a month-to-month basis (seasonally adjusted), the CPI increased 0.2% in February following a 0.1% decline in January.
- The year-over-year increase in commodity prices jumped to 21.9% in March, up from 16.7% in February. Energy price inflation rose to 37.8% in March, from 25.9%, the largest increase since November 2004. On a monthly basis, commodity prices rose 7.2% after rising 2.5% in February. Excluding energy, commodity prices moderated to 2.3% from 3.8% in February.

...and the core inflation rate rose to 1.8%

- The "core" rate of inflation, which excludes the eight most volatile components and indirect taxes, rose to 1.8% in February from 1.6% in January, below the midpoint of the 1%-3% official target range.

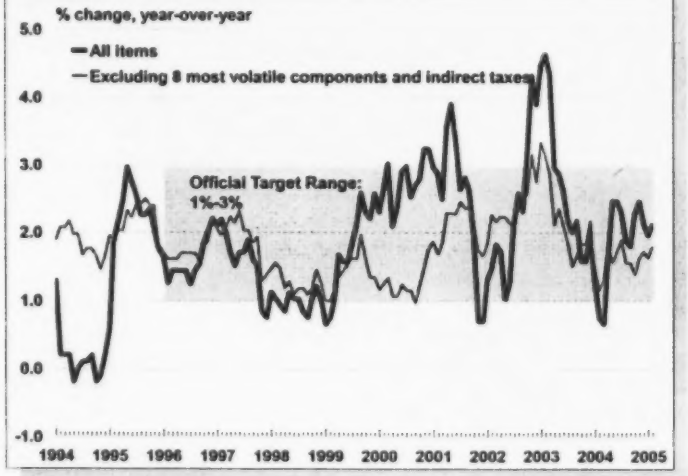
Commodity Prices ($US basis)



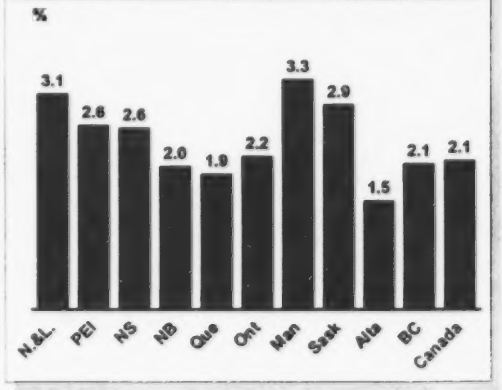
Consumer Prices

February 2005	Index (1992=100)	% Change since last month	% Change since last year
All items CPI	125.8	0.4	2.1
Food	126.6	-0.2	2.6
Shelter	122.6	0.2	3.0
Household operations	115.5	0.2	0.3
Clothing & Footwear	103.0	3.0	-1.0
Transportation	147.0	0.5	3.6
Health & Personal Care	119.7	0.6	1.7
Recreation, Educ. & Reading	126.3	0.6	-0.2
Alcohol & Tobacco	145.2	0.1	2.9
Excl. 8 Most Volatile/Indirect Taxes	125.5	0.3	1.8
Energy	152.3	2.1	7.3
Commodity Prices (March 2005)			
Index, 1982-90=100	169.0	7.2	21.9
Excluding Energy	134.4	2.4	9.4
Energy	227.2	12.5	37.8

Consumer Price Index



Provincial CPI Inflation -- February 2005



Short-term and Long-term Interest Rates

The Canadian short-term rate remained stable in April...

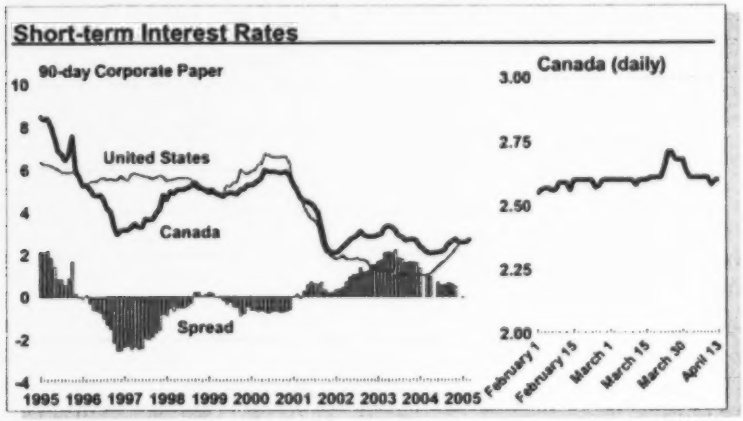
- The Bank of Canada kept the target for the overnight rate unchanged at 2.5% on April 12, as developments since its latest rate announcement on March 1 continued to point to moderate growth and low inflation. The Bank of Canada revised down its growth forecast for 2005 to 2.6% from the 2.8% expected in the January update. In the U.S., the Federal Open Market Committee (FOCM) raised the Fed funds rate by 25 bps to 2.75% on March 22. The Minutes of the FOCM, released on April 12, revealed some concerns about inflation, but concluded that it was appropriate to keep increasing rates at a measured pace. This points to another 25 bps increase to 3.0% at the next Federal Reserve meeting on May 3.

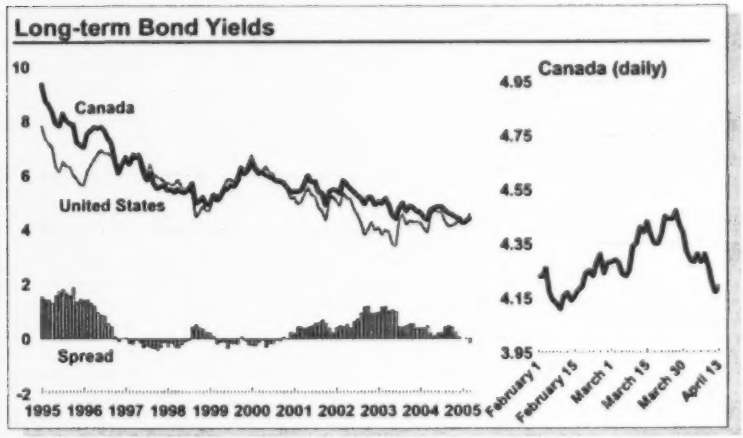
- Canadian short-term rates were stable at 2.6% from mid-March to mid-April. After raising sharply in March, U.S. rates stabilized around 3.0% in April and the negative spread between Canada-U.S. rates widened slightly from about -35 bps to -38 bps.

...and North American long-term yields pulled back

- Long-term rates retreated sharply in April, as concerns about the Federal Reserve shifting towards a more aggressive stance in the near-term were pushed aside. In the U.S., 10-year yields were 4.35% on April 12, down over 25 bps since March 22. Yields in Canada fell about 30 bps, from a recent high in March, to 4.19% on April 13, leading the negative Canada-U.S. spread on long-term yields to widen slightly to 19 bps.

- Reflecting an earlier rise in long-term yields, mortgage rates edged up in April. One-year mortgage rates rose 25 bps to 5.05% on April 6, and five-year mortgage rates climbed from 6.05% to 6.25%.





Key Market Rates

(end of period)	90-day Corporate Paper	*spread against U.S.*	Long Bond Yield	*spread against U.S.*
2003	2.66	1.62	4.66	0.39
2004	2.57	N/A	4.39	0.06
October	2.60	0.59	4.52	0.41
November	2.74	0.49	4.44	0.24
December	2.57	N/A	4.39	0.06
January	2.56	-0.04	4.21	0.00
February	2.57	N/A	4.28	0.01
March	2.68	N/A	4.39	-0.17
April 13 *	2.60	-0.42	4.19	-0.19

A positive spread indicates that Canadian rates are above their U.S. counterparts. * Bank of Canada's Weekly Financial Statistics

Key Lending Rates

(end of period)	Overnight Rate	Prime Lending Rate	Mortgage Rate 1 year	Mortgage Rate 5 year
2003	2.75	4.50	4.75	6.45
2004	2.50	4.25	4.80	6.05
October	2.50	4.25	4.90	6.40
November	2.50	4.25	5.00	6.30
December	2.50	4.25	4.80	6.05
January	2.50	4.25	4.80	6.05
February	2.50	4.25	4.80	6.05
March	2.50	4.25	5.05	6.25
April 13 *	2.50	4.25	5.05	6.25

* Bank of Canada's Weekly Financial Statistics

Exchange Rates and Stock Prices

The Canadian dollar lost some ground in April

- The Canadian dollar declined 2.9% from its recent high on March 17 (US¢83.2) to close at US¢80.8 on April 12, a level similar to that in early March. The greenback regained some strength amid strong U.S. GDP growth and a widening negative spread between Canadian and U.S. interest rates. The recent pull back in the Canadian dollar was also due to oil prices declining substantially from a recent high. The price of West Texas Intermediate (WTI) fell from a record high of 58.27$ per barrel on April 1 to 51.86$ on April 12.

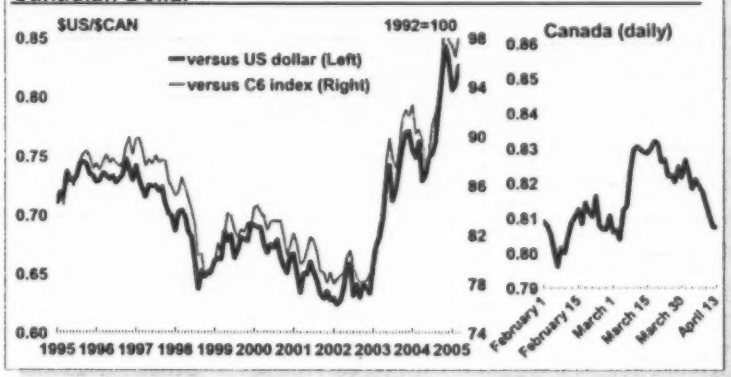
- The Canadian dollar appreciated marginally vis-à-vis the euro and the Japanese yen in recent weeks. The loonie gained 0.7% against the euro from March 17 to April 12, and 0.3% against the yen from March 17 to April 12.

North American stock indices bounced back as long-term interest rates edged down

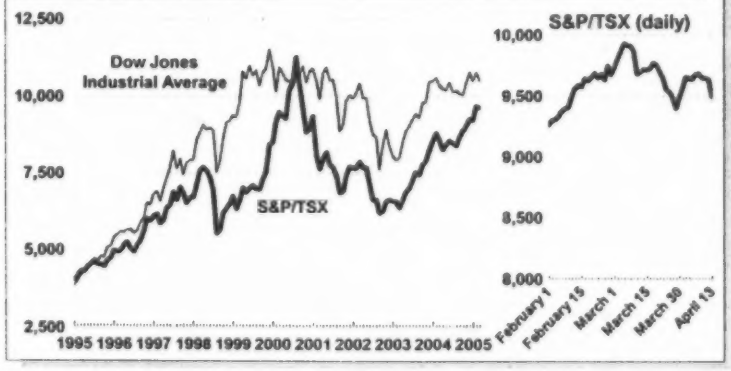
- The S&P/TSX index bounced back and closed at 9,629 on April 12 after hitting a low of 9,395 on March 29. While most sub-indices closed at a similar level in mid-April than in mid-March, metals & mining, materials, and gold posted significant monthly losses.

- The Dow Jones closed at 10,508 on April 12, up from 10,404 on April 1. Equity markets bounced back as yields on long-term bonds retreated.

Canadian Dollar



Stock Market Indices



The Canadian Dollar

(close)	$US vs. $CAN	Index vs. C-6 (92=100)	$CAN vs. EURO	yen vs. $CAN
2003	0.7713	91.65	1.628	82.86
2004	0.8319	97.74	1.629	85.27
October	0.8210	96.36	1.559	86.88
November	0.8432	99.92	1.577	86.76
December	0.8319	97.74	1.629	85.27
January	0.8057	97.41	1.618	83.49
February	0.8107	96.40	1.633	84.75
March	0.8267	98.17	1.568	88.65
April 13	0.8074	96.77*	1.599	86.71

* Bank of Canada's Weekly Financial Statistics

Key Stock Market Indexes

	March Close	% change from last month	% change from last year
S&P/TSX	**9,612**	**-0.6**	**12.0**
Energy	235	-0.1	41.8
Metals & Mining	312	-2.7	39.8
Utilities	163	-0.2	4.7
Materials	165	-5.5	6.5
Industrial	81	2.4	8.1
Financial	158	0.5	11.4
Gold	194	-6.9	-15.6
Telecommunication	78	1.5	21.7
Information Technology	29	3.0	-10.1
Consumer Discretionary	93	-2.0	7.1
Consumer Staples	203	-0.5	15.3
S&P 500	**1,180.6**	**-1.9**	**4.8**
Dow Jones	**10,504**	**-2.4**	**1.4**

THE UNITED STATES ECONOMY

U.S. Economic Trends

Recent indicators point to continued growth in the first quarter

- After growing by 3.8% in the fourth quarter of 2004, real GDP is poised to rise further on the continued strength of strong domestic demand.

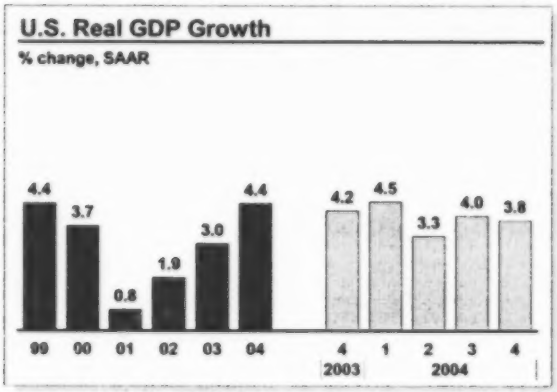
- Non-farm employment increased by 110,000 in March after increasing 243,000 in February. Gains were led by professional and business services, construction, and education and health services. The construction sector has added 489,000 jobs since March 2003 as residential construction continues to be brisk. The unemployment rate edged down to 5.2% in March from 5.4% in February as less people were unemployed.

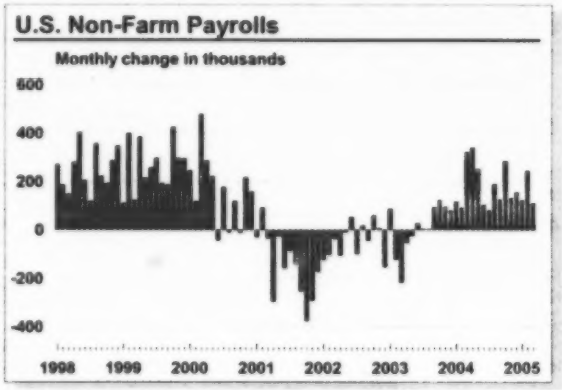
- In February, industrial production rose 0.3% and manufacturing output increased 0.5%. The increase in manufacturing production was largely a result of higher output of motor vehicles and parts and a rise in the production of computer and electronic products. Moreover, real consumer spending increased 0.3% in February and would rise by over 3% (annualized) in the first quarter assuming no growth in March.

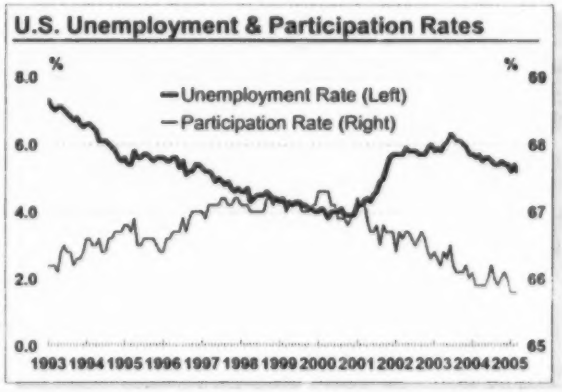
- The Institute of Supply Management (ISM) manufacturing index edged down to 55.2 in March from 55.3 in the previous month (a reading above 50 indicates the sector is expanding) while the non-manufacturing index surged to 63.1.

Trade deficit widens sharply in February

- The trade deficit widened to a record high in February as imports increased more than exports. Exports of goods and services edged up $0.1 billion to $100.5 billion as exports of industrial supplies and materials and consumer goods rose strongly. On the other hand, imports increased $2.6 billion to $161.5 billion, mostly as a result of higher industrial supplies and materials and consumer goods imports. On a year-over-year basis, exports are up 8.7% and imports 16.8%, resulting in a widening of the trade deficit.



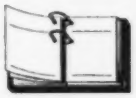




Source: U.S. Bureau of Economic Analysis & U.S. Bureau of Labor Statistics

COMING UP

Key Future Data Releases and Planned Events



CANADA

Consumer Price Index - March	April 22
Real GDP by Industry - February	April 29
Labour Force Survey - April	May 6
Canadian International Merchandise Trade - March	May 11
Monthly Survey of Manufacturing - March	May 13
Key Policy Interest Rate Announcement	May 25
Financial Statistics for Enterprises - 1st Quarter 2005	May 26
Balance of International Payments - 1st Quarter 2005	May 30
National Economic and Financial Accounts - 1st Quarter 2005	May 31

UNITED STATES

Consumer Price Index - March	April 20
GDP - 1st Quarter 2005 (advance)	April 28
Federal Open Market Committee Meeting	May 3
The Employment Situation - April	May 6
International Trade in Goods and Services - March	May 11

Note: The April 2005 MEI uses data available as of April 15, 2005

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Monthly Economic Indicators

May 2005

The "Monthly Economic Indicators" (MEI) provides a variety of economic analysis and data in a convenient format. The MEI does not interpret or evaluate government policies, and every attempt is made to present factual information in an informed and balanced manner consistent with generally accepted economic principles. It is available to all employees of Industry Canada in either hard or electronic copy, or can be accessed via the Internet at http://strategis.ic.gc.ca/epic/internet/ineas-aes.nsf/en/h_ra01898e.html

Canada

MONTHLY ECONOMIC INDICATORS

May 2005

HIGHLIGHTS

- *Real Gross Domestic Product (GDP) rose 0.3% in February and 0.2% in January. Assuming no growth in March, real GDP would increase by 2.4% in the first quarter after a 2.1% gain in the fourth quarter.*
- *Recent indicators suggest that consumer spending and business investment will be important contributors to first quarter growth.*
- *Real exports grew significantly less than real imports in the first quarter, resulting in a net drag on growth.*
- *Employment rose 29,000 in April, bringing total job gains this year to 55,000 (or 0.3%). The unemployment rate edged down 0.1 percentage point from March to 6.8%.*
- *According to advance estimates, the United States (U.S.) economy grew 3.1% in the first quarter of 2005, less than the 3.8% gain in the previous quarter.*
- *In the U.S., the Federal Reserve raised its fed funds rate by another 25 basis points to 3.0% on May 3.*
- *Commodity prices, notably oil, softened further in May and were one of the factors contributing to a decline in the value of the Canadian dollar. The dollar closed at US¢78.8 on May 16, down 2.5% from mid-April.*

Key Monthly Economic Indicators

		% Change since last month	% Change since last year	
Real GDP ($97 B)	1,063.3	0.3	3.6	Feb.
Goods	332.2	-0.2	3.5	Feb.
Services	732.4	0.5	3.7	Feb.
Composite Index	202.4	0.2	5.4	Mar.
Employment (000's)	16,118	0.2	1.3	Apr.
Full-time	13,138	0.4	1.3	Apr.
Part-time	2,980	-0.7	1.6	Apr.
Unemployment* (%)	6.8	6.9	7.2	Apr.
Youth*	12.3	12.6	13.7	Apr.
Adult*	5.7	5.8	5.9	Apr.
CPI inflation*	2.3	2.1	0.7	Mar.
Retail Sales ($M)	30,415	1.7	7.7	Feb.
Housing Starts (000's)**	230.4	5.5	-1.3	Apr.
Trade Balance* ($M)	4,235	4,156	5,422	Mar.
Exports	35,763	0.2	2.9	Mar.
Imports	31,528	0.0	8.1	Mar.
M&E	8,976	0.1	7.5	Mar.

	May 11 ***	April 2005	April 2004
3-mth Corp. paper (%)*	2.59	2.58	2.05
Long bond yield (%)*	4.12	4.14	4.71
Canadian dollar (US¢)*	80.14	79.46	72.88

*Data in levels only – % change not reported
**Canada Mortgage and Housing Corporation
***Bank of Canada's Weekly Financial Statistics
All other data from Statistics Canada

The "Monthly Economic Indicators" (MEI) provides a variety of economic analysis and data in a convenient format. The MEI does not interpret or evaluate government policies, and every attempt is made to present factual information in an informed and balanced manner consistent with generally accepted economic principles. It is available to all employees of Industry Canada in either hard or electronic copy, or can be accessed via the Internet at http://strategis.ic.gc.ca/epic/internet/ineas-aes.nsf/en/h_ra01898e.html

Industry Canada Industrie Canada

Canada

Monthly Economic Indicators
May 2005

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This issue uses data available as of May 13, 2005. It has been prepared by Éric Chalifoux, Stéphane Crépeau, Kevin Koch, Sue Moore and François Rimbaud of the Micro-Economic Analysis Directorate, under the interim direction of Robert Lamy. Translation has been provided by Lucie Larocque and Sue Hopf is responsible for production support.

Sources of information primarily include Statistics Canada, as well as the Bank of Canada, Canada Mortgage and Housing Corporation, Canadian Real Estate Association, Conference Board of Canada, U.S. Bureau of Economic Analysis, and U.S. Bureau of Labor Statistics. Unless cited otherwise, data contained in graphs and tables are derived from Statistics Canada.

Please address comments to Robert Lamy at (613) 957-7842 or through the Internet at lamy.robert@ic.gc.ca.

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Real GDP by Industry

Economic activity continued to expand in February...

- Real GDP at basic prices rose 0.3% in February following an increase of 0.2% in January. Growth was mainly driven by strong activity in the retail and wholesale trade sectors. Assuming no growth in March, real GDP would be up by 2.4% (annual rate) in the first quarter, after expanding by 2.1% in the fourth quarter. On a year-over-year basis, real GDP was up 3.6% with the business sector expanding 4.1% and the non-business sector increasing 1.2%.

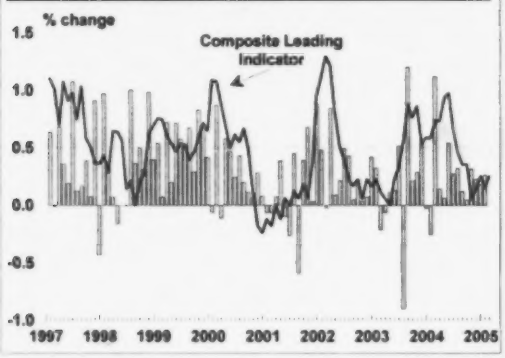
...with the goods sector edging down...

- Goods production edged down 0.2% in February after being flat in January. Gains were recorded in the manufacturing and agriculture, forestry, fishing and hunting sectors. Less than half of the manufacturing major groups reported gains in February with machinery and computer and electronic products rising strongly. Furthermore, the manufacturing of information and communication technologies goods reached its highest level since July 2001.

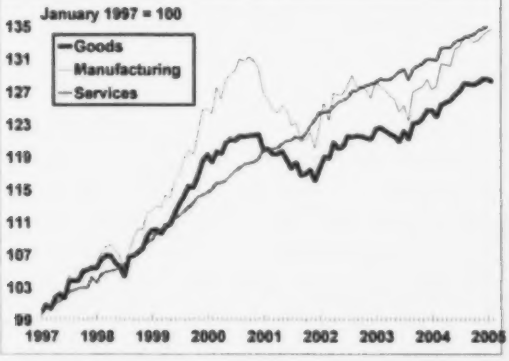
...and the service sector continuing to grow

- Service output increased 0.5% in February after rising 0.3% in January. Retail trade expanded a further 1.7%, mainly due to strong car sales, after increasing 2.3% in the previous month. Sales of alcoholic beverages was also strong as Quebec's liquor store strike ended and sales in other provinces increased. Moreover, wholesaling activity picked up steam after edging down in January with wholesalers of food and beverage products increasing output strongly.

Real GDP at Basic Prices



Real GDP by Major Sector



Real GDP at Basic Prices (1997 chained dollars)

February 2005	$ millions	monthly change	% Change since last month	% Change since last year
Total Economy	**1,063,347**	**2,739**	**0.3**	**3.6**
Business Sector	**905,397**	**2,471**	**0.3**	**4.1**
Goods-producing	**332,238**	**-844**	**-0.2**	**3.5**
Agri., Forest, Fish, Hunt*	24,196	38	0.2	4.9
Mining & Oil & Gas Extraction	37,078	-498	-1.3	-2.3
Utilities	26,378	-207	-0.8	3.8
Construction	58,978	-83	-0.1	2.8
Manufacturing	185,864	378	0.2	5.4
Services-producing	**732,389**	**3,489**	**0.5**	**3.7**
Wholesale Trade	69,231	969	1.4	11.5
Retail Trade	62,151	1,032	1.7	6.2
Transportation & Warehousing	51,416	213	0.4	5.7
Information & Cultural	44,043	128	0.3	4.8
FIRE**	214,842	737	0.3	3.7
Professional***	46,598	37	0.1	1.5
Admin. & Waste Mgmt	22,252	47	0.2	2.1
Education	45,745	142	0.3	2.5
Health & Social	62,956	25	0.0	0.9
Arts, Entertain. & Recreation	9,382	10	0.1	-2.5
Accommodation & Food	23,648	92	0.4	1.7
Other	24,767	78	0.3	1.4
Public Administration	57,470	88	0.2	0.9

*Agriculture, Forestry, Fishing & Hunting
**Finance, Insurance & Real Estate
***Professional, Scientific & Technical services

Consumer Spending and Confidence

Consumption poised to rise strongly in the first quarter...

- Real retail sales rose 1.7% in February, following a 2.3% increase in January. Assuming no-growth in March, real retail sales will rise 10.2% in the first quarter, following a 3.6% increase in the fourth. The strengthening in growth partly reflects solid employment growth and high consumer confidence.

- New motor vehicle sales declined 5.9% in March, after rising 12.2% in February. In the first quarter, sales rose 5.5%, following a 6.2% increase in the fourth.

...but most recent spending indicators point to a slowdown in the second quarter

- The index of consumer confidence receeded 2.7% in April, reflecting lower optimism with respect to financial and job prospects as well as lower enthusiam for big-ticket purchases. Nevertheless, the index remained well above its ten-year average (113.8).

- Consumer confidence declined in every region in April. The largest declines were witnessed in British Columbia (7.4%) and the Atlantic Provinces (4.8%).

- Preliminary figures from the auto industry indicate that April's new motor vehicle sales were largely unchanged from March, but stood 0.3% below their first quarter average.

- High levels of consumer confidence and healthy job creation bode well for future consumption.

Total Retail and Motor Vehicle Sales

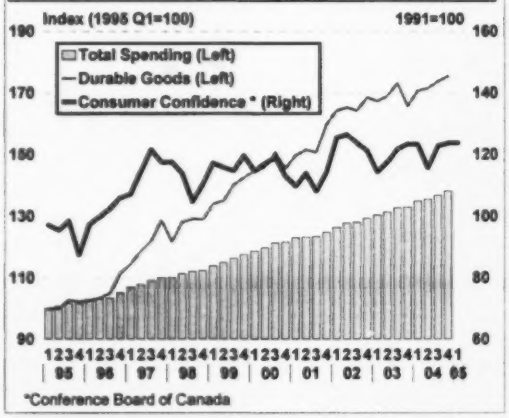
Retail Sales and Consumer Credit

February 2005		% Change since	
	$ millions	last month	last year
Total Retail Sales (S.A.)	30,415	1.7	7.7
Food	5,969	-0.1	7.5
Drug Stores	1,970	0.6	6.5
Clothing	1,765	4.1	5.5
Furniture	2,013	2.4	10.5
Automotive	10,278	2.4	8.9
General Merch. Stores	3,608	-0.4	4.1
All other Stores	4,812	3.6	8.5
Total ex. motor vehicles	23,121	1.3	8.0
Consumer Credit	275	0.9	10.8

Real Consumer Spending and Household Finances

$ Millions, SAAR (unless otherwise noted)	2003	2004	2004 Q3	2004 Q4
Real Consumption (97$)	620,444	641,863	643,833	650,300
% change	*3.1*	*3.5*	*3.6*	*4.1*
Durable Goods	94,923	97,156	97,669	98,601
% change	*2.0*	*2.4*	*5.3*	*3.9*
Semi-Durable Goods	56,142	59,285	60,047	60,031
% change	*3.1*	*5.6*	*8.4*	*-0.1*
Non-Durable Goods	140,078	143,453	143,511	145,274
% change	*2.1*	*2.4*	*2.9*	*5.0*
Services	330,098	342,878	343,636	347,336
% change	*3.9*	*3.9*	*2.8*	*4.4*
Disposable Income	713,548	741,230	744,116	752,180
% change	*3.0*	*3.9*	*2.6*	*4.4*
Saving Rate (%)	1.4	0.4	0.3	0.0
Debt-to-Income Ratio (%)	101.6	104.6	105.1	105.8

Real Consumer Spending and Confidence



Business Investment

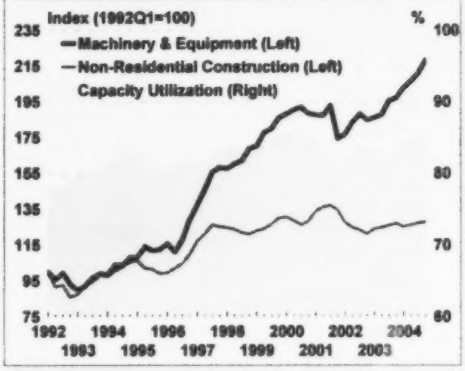
Machinery & equipment (M&E) investment should rise in the first quarter...

- Real imports of machinery and equipment (M&E) rose 3.2% in March, following a 0.5% decline in February. In the first quarter, real imports of M&E rose 18.5%, following an increase of 16.6% in the fourth, suggesting solid growth in M&E investment in the first quarter.
- Shipments of machinery declined 1.3% in March, following a 1.7% increase in February. Nonetheless, first quarter shipments rose 29.4%, as a result of a sizeable jump in January, following a 6.7% decline in the fourth.

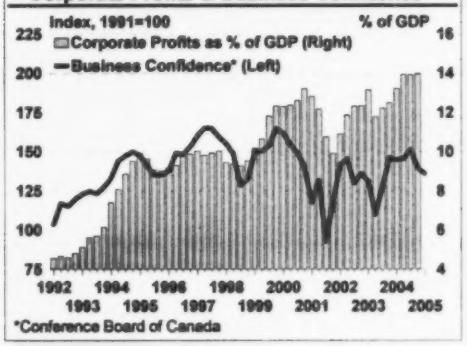
...and prospects are good for sustained growth in 2005

- While the index of business confidence declined to 135.9 in April (from 139.8 in December). The number of respondents who felt this was a good time to invest in plant or equipment remained stable.
- The value of business (commercial and industrial) non-residential building permits jumped 20.2% in March, following a 13.1% increase in February. This bodes well for second quarter investment in structures.
- The May Consensus Forecast expects real M&E investment to rise 11.0% in 2005, following a 9.4% increase in 2004.

Investment in Plant and Equipment



Corporate Profits & Business Confidence



*Conference Board of Canada

Business Investment and Corporate Finances

$ Millions, SAAR (unless otherwise noted)	2003	2004	2004 Q1	2004 Q2	2004 Q3	2004 Q4
BUSINESS INVESTMENT						
Machinery & Equipment (1997$)	86,441	94,598	91,569	93,153	95,206	98,464
% change	*4.5*	*9.4*	*12.5*	*7.1*	*9.1*	*14.4*
Non-residential Construction (1997$)	44,928	45,361	44,900	45,177	45,589	45,777
% change	*1.0*	*1.0*	*-5.2*	*2.5*	*3.7*	*1.7*
Capacity Utilization (%, Non-farm goods)	83.0	85.0	83.7	84.6	85.7	86.0
Capacity Utilization (Mfg. sector)	83.0	87.0	84.5	86.4	88.5	88.5
CORPORATE FINANCES & ATTITUDES						
Corporate Operating Profits	172,118	204,505	194,124	205,304	206,828	211,764
% change	*14.8*	*18.8*	*39.3*	*25.1*	*3.0*	*9.9*
Profits - Non-financial industries	128,203	154,083	142,732	155,416	155,632	162,552
% change	*10.7*	*20.2*	*38.4*	*40.6*	*0.6*	*19.0*
Profits - Financial industries	43,915	50,421	51,392	49,888	51,192	49,212
% change	*28.5*	*14.8*	*42.1*	*-11.2*	*10.9*	*-14.6*
Business Credit	904,428	940,610	920,133	933,140	948,505	960,663
% change	*1.6*	*4.0*	*3.9*	*5.8*	*6.8*	*5.2*

Housing

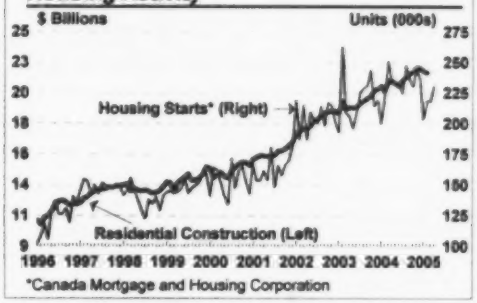
New residential construction weakened in the first quarter...

- Residential building construction (GDP) declined in both January and February (0.8% and 0.6% respectively). Assuming no growth in March, residential construction will decline 3.7% in the first quarter, following an increase of 10.8% in the fourth.
- Housing starts declined 34.2% in the first quarter, following a 1.6% increase in the fourth. Meanwhile, year-over-year increases in new housing prices have been trending downward since June 2004. On average, the annual rate of increase was 5.7% in the first quarter, compared to 6.1% in the fourth.
- Nonetheless, the resale housing market improved in the first quarter. Sales of existing homes rose 1.6% in the first quarter, following two consecutive quarterly declines. Moreover, the average price of houses sold rose further (9.3%) in the first quarter, following a 15.7% increase in the fourth.

...and market analysts expect a decline in 2005

- Housing starts rose to 230,400 in April from 218,400 in March. However, as some analysts point out, bad weather in the first quarter probably delayed some construction until spring and could provide a partial explanation for April's strong rebound.
- So far this year, housing starts have averaged 218,000, down from 232,000 for 2004 as a whole. The May Consensus forecast expect the average housing starts to decline 4.1% to 209,000 in 2005.

Housing Activity



*Canada Mortgage and Housing Corporation

Monthly Housing Indicators

	Levels	Change since Last month	Change since Last year
Residential Construction (1)* ($97M, basic prices)	21,724	-0.6%	6.7%
Building Permits, $M (2)*	2,924	-12.2%	-0.9%
Sales of Existing Homes (3)** (# of units, major markets)	28,061	1,448	180
Housing Starts, (3)*** (# of units, SAAR)	230,400	12,000	-3,000
Newfoundland & Labrador	1,600	-1,100	-1,200
Prince Edward Island	500	-800	-500
Nova Scotia	6,600	3,000	2,900
New Brunswick	3,600	-300	-500
Quebec	57,600	5,500	1,700
Ontario	81,500	9,200	-5,700
Manitoba	4,100	-1,100	-200
Saskatchewan	2,700	500	-1,300
Alberta	40,700	600	8,800
British Columbia	31,300	-3,700	-7,200

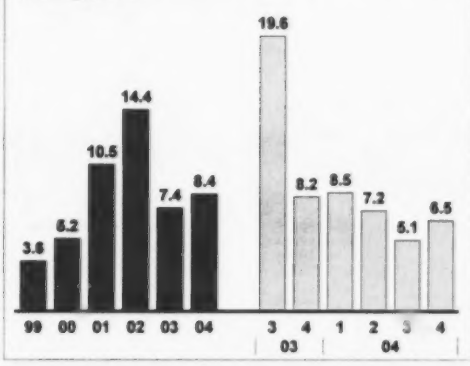
1 - February data; 2 - March data; 3 - April data
Sources: *Statistics Canada; **Canadian Real Estate Association; ***Canada Mortgage and Housing Corporation

Real Investment in Residential Structures

$97 Millions, SAAR (unless otherwise noted)	2003	2004	2004 Q3	2004 Q4
Residential Construction	62,452	67,681	68,119	69,205
% change	*7.4*	*8.4*	*5.1*	*6.5*
New Housing	30,678	33,317	33,539	34,165
% change	*6.2*	*8.6*	*7.2*	*7.7*
Alterations & Improvements	22,619	24,627	24,804	25,688
% change	*9.8*	*8.9*	*12.8*	*15.0*
Ownership & Transfer Costs	9,204	9,830	9,872	9,576
% change	*6.5*	*6.8*	*-13.5*	*-11.5*

Growth in Real Residential Construction

% change, SAAR



Trade and Competitiveness

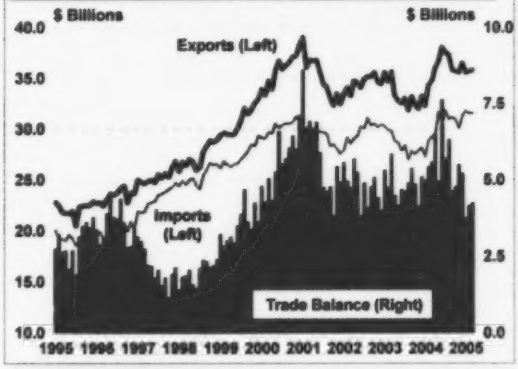
Exports edged up while imports remained unchanged in March...

- Merchandise exports edged up 0.2% in March, after increasing 0.4% in February, as energy products and machinery and equipment exports rose strongly.
  - Exports declined 0.7% in the first quarter after decreasing 2.6% in the fourth quarter.
- Imports remained unchanged in March after decreasing 0.8% in February. Imports of machinery and equipment increased as business investment rose for a fourth consecutive month in March due to high corporate profits and low interest.
  - Imports increased 2.8% in the first quarter after declining 1.8% in the previous quarter.

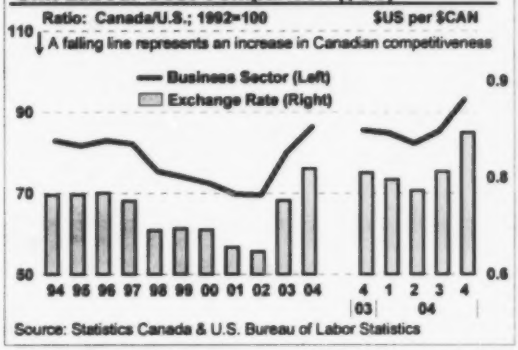
...pushing the trade surplus slightly higher

- Canada's trade surplus increased by $81 million to $4.2 billion in March. The trade surplus with the U.S. rose by $37 million to $8.1 billion and the trade deficit with other countries decreased by $42 million to $3.9 billion.
- The real trade surplus will be a drag on economic growth in the first quarter as real imports increased almost 3.0% while real exports edged up 0.5%.

Merchandise Trade Flows and Balance



Unit Labour Cost Comparison ($US)



Source: Statistics Canada & U.S. Bureau of Labor Statistics

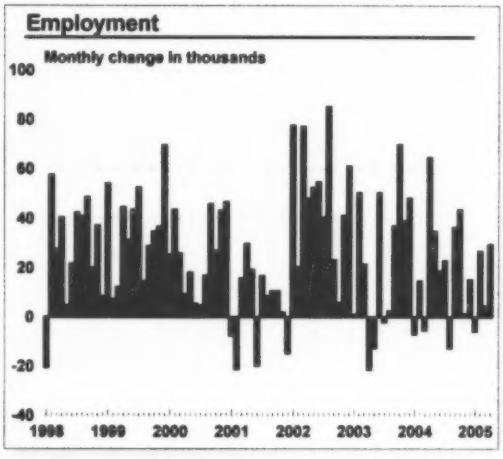
Merchandise Trade

March 2005	Levels ($ millions)		Year-to-date ($ millions)		Change ($M)	% Change	
	February 2005	March 2005	Jan.-Mar. 2004	Jan.-Mar. 2005	Feb. to Mar. 2005	Feb. to Mar. 2005	Jan.-Mar. 2004 to Jan.-Mar. 2005
Exports	**35,684**	**35,763**	**101,287**	**106,996**	**79**	**0.2**	**5.6**
to United States	29,246	29,070	82,720	87,401	-176	-0.6	5.7
Imports	**31,528**	**31,528**	**85,302**	**94,851**	**0**	**0.0**	**11.2**
from United States	21,192	20,979	59,582	63,593	-213	-1.0	6.7
Trade Balance	**4,156**	**4,235**	**15,985**	**12,144**	**79**		
with United States	8,054	8,091	23,138	23,808	37		
Exports by Commodity							
Agriculture/Fishing Products	2,436	2,380	7,457	7,218	-56	-2.3	-3.2
Energy Products	5,560	6,150	15,246	17,320	590	10.6	13.6
Forestry Products	3,166	3,156	9,179	9,420	-10	-0.3	2.6
Industrial Goods & Materials	6,947	6,732	18,015	20,534	-215	-3.1	14.0
Machinery & Equipment	7,622	7,896	22,229	23,073	274	3.6	3.8
Automotive Products	7,438	6,872	21,844	21,724	-566	-7.6	-0.5
Other Consumer Goods	1,463	1,424	4,285	4,339	-39	-2.7	1.3
Imports by Commodity							
Agriculture/Fishing Products	1,826	1,788	5,224	5,517	-38	-2.1	5.6
Energy Products	2,507	2,764	5,171	7,864	257	10.3	52.1
Forestry Products	269	261	727	793	-8	-3.0	9.1
Industrial Goods & Materials	6,416	6,466	16,737	19,461	50	0.8	16.3
Machinery & Equipment	8,963	8,976	24,711	26,733	13	0.1	8.2
Automotive Products	6,352	6,098	18,470	19,065	-254	-4.0	3.2
Other Consumer Goods	4,125	4,128	11,420	12,286	3	0.1	7.6

Employment and Unemployment

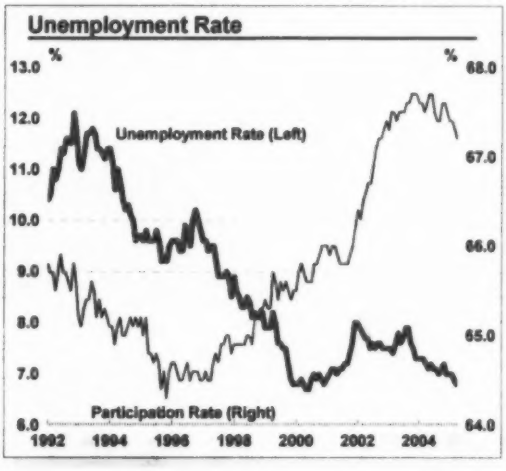
Employment strengthened in April...

- Employment rose 29,000 in April, following modest job growth over the previous five months. Employment gains were all in full-time (50,000), as part-time employment declined 20,000.
- Since the beginning of the year, employment has increased 0.3% (or 55,000), mostly in full-time employment. The number of hours worked rose 1.4% over the same period, helped by April's strong gains in full-time employment.
- All of the job gains in April were in the public sector (38,000) while employment in the private sector decreased 8,000. In the last three months, the public sector has accounted for all of the job growth.
- Youth employment edged up 1,000 in April, leaving losses over the first four months of 2005 to 30,000 (or 1.2%), all in full-time jobs.



...helping to push down the unemployment rate to 6.8%

- The national unemployment rate edged down 0.1 percentage point to 6.8%, the lowest level since December 2000.
- A decline in the labour force combined with a small employment increase pushed youth's unemployment rate down 0.3 percentage point to 12.3%.
- The employment rate rose 0.1 percentage point to 62.7%, near its record high of 62.8%.



Labour Force Trends

(in thousands)	Levels			Change since			% Change since	
	2004 April	2005 March	2005 April	last month	last year	year-to-date	last month	last year
Employment	15,903.5	16,088.4	16,117.7	29.3	214.2	54.6	0.2	1.3
Full-time	12,970.1	13,088.3	13,137.9	49.6	167.8	39.2	0.4	1.3
Part-time	2,933.5	3,000.0	2,979.9	-20.1	46.4	15.5	-0.7	1.6
Youth 15-24	2,450.2	2,453.8	2,455.2	1.4	5.0	-29.7	0.1	0.2
Adult 25+	13,453.3	13,634.5	13,662.6	28.1	209.3	84.4	0.2	1.6
Self-employed	2,446.6	2,509.0	2,501.6	-7.4	55.0	48.2	-0.3	2.2
Unemployment	1,236.0	1,192.7	1,172.4	-20.3	-63.6	-44.5	-1.7	-5.1
Unemployment Rate	7.2	6.9	6.8	-0.1	-0.4	-0.2		
Youth 15-24	13.7	12.6	12.3	-0.3	-1.4	-0.4		
Adult 25+	5.9	5.8	5.7	-0.1	-0.2	-0.2		
Labour Force	17,139.5	17,281.0	17,290.1	9.1	150.6	10.1	0.1	0.9
Participation Rate	67.6	67.3	67.2	-0.1	-0.4	-0.3		
Employment Rate	62.7	62.6	62.7	0.1	0.0	-0.1		

Industry Overview

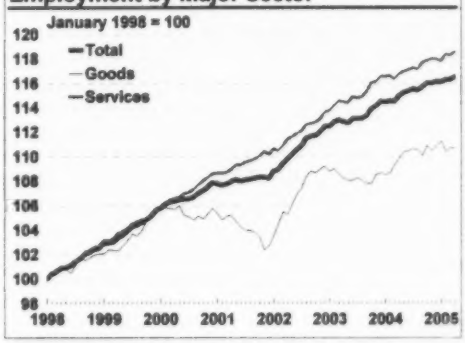
In the Goods sector, losses in manufacturing offset gains in other industries...

- Employment in the Goods sector was unchanged in April, following an increase of 11,000 in March. Gains in construction (26,000) and in natural resources (6,000) offset a decline of 29,000 in the manufacturing sector.
- The higher value of the Canadian dollar has likely continued to impact employment in the manufacturing sector, bringing losses in the sector to 43,000 since last December. Since the beginning of the year, 6,000 net jobs have been lost in the Goods sector, all in manufacturing.

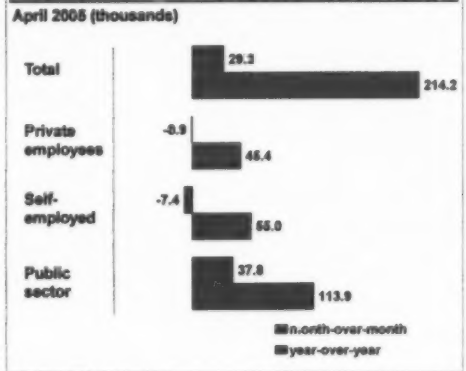
...and employment rebounded strongly in the Services sector

- Employment in the Service sector rose 29,000 in April, following a slight decline (6,000) in March. The highest increases were witnessed in educational services (29,000), public administration (23,000) and professional, scientific & technical services (23,000). The largest decline was in health care & social assistance (23,000).
- Since the beginning of the year, employment gains in services have been concentrated in educational, public administration and finance, insurance, real estate & leasing services.

Employment by Major Sector



Employment Growth by Worker Category



Industrial Employment Trends

(in thousands)	Levels			Change since			% Change since	
	2004 April	2005 March	2005 April	last month	last year	year-to-date	last month	last year
Goods-producing	3,988.1	4,017.5	4,017.9	0.4	29.8	-6.0	0.0	0.7
Agriculture	329.9	333.0	331.7	-1.3	1.8	10.0	-0.4	0.5
Natural Resources*	281.5	298.3	304.1	5.8	22.6	2.9	1.9	8.0
Utilities	134.6	125.6	125.3	-0.3	-9.3	0.7	-0.2	-6.9
Construction	931.7	993.2	1,018.8	25.6	87.1	23.8	2.6	9.3
Manufacturing	2,310.3	2,267.5	2,238.1	-29.4	-72.2	-43.4	-1.3	-3.1
Services-producing	11,915.5	12,070.9	12,099.8	28.9	184.3	60.6	0.2	1.5
Trade	2,482.9	2,556.2	2,536.3	-19.9	53.4	12.1	-0.8	2.2
Transportation*	815.9	783.6	784.5	0.9	-31.4	-2.1	0.1	-3.8
FIRE*	944.5	1,000.7	998.7	-2.0	54.2	14.3	-0.2	5.7
Professional/Scientific	1,006.9	1,018.2	1,041.3	23.1	34.4	11.5	2.3	3.4
Business/Building	626.6	634.0	634.2	0.2	7.6	1.4	0.0	1.2
Educational Services	1,032.8	1,075.9	1,104.4	28.5	71.6	47.7	2.6	6.9
Health Care/Social Assistance	1,743.6	1,737.1	1,714.4	-22.7	-29.2	-22.0	-1.3	-1.7
Information/Culture/Recreation	724.2	744.5	727.7	-16.8	3.5	-5.6	-2.3	0.5
Accommodation & Food	1,012.6	987.5	996.3	8.8	-16.3	-20.4	0.9	-1.6
Other Services	703.8	699.0	704.4	5.4	0.6	2.4	0.8	0.1
Public Administration	821.6	834.1	857.5	23.4	35.9	21.3	2.8	4.4

*Natural Resources: Forestry, Fishing, Mining, Oil & Gas; Transportation includes warehousing; FIRE: Finance, Insurance, Real Estate & Leasing.

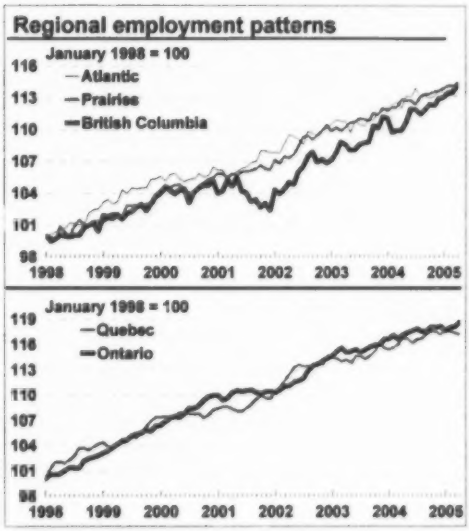
Provincial Overview

Employment gains were concentrated in Ontario and British Columbia...

- British Columbia (B.C.) recorded the highest employment gain among western provinces in April (13,000). Employment in this province increased 4.0 percent in the past 12 months. Alberta's employment rose slightly (2,000) while it declined in Saskatchewan (4,000) and Manitoba (600).

- Ontario's employment rose by 26,000 as an increase of 59,000 full-time jobs was only partly offset by a decline in part-time employment. In Quebec, employment declined (6,000) for a third consecutive month, mostly in manufacturing and trade.

- Newfoundland & Labrador reported the largest employment loss (4,000) among the Atlantic provinces, with declines spread across several sectors. Employment in the Atlantic provinces has been relatively unchanged over the last 11 months.

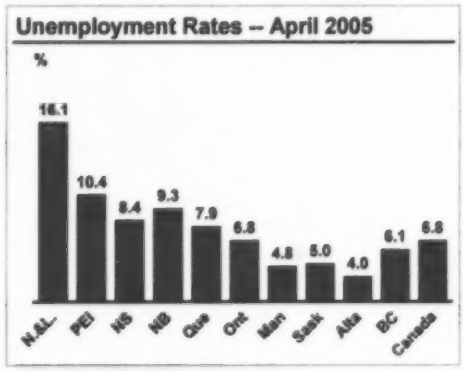


...while the unemployment rate fell in most provinces

- B.C.'s employment gain pushed its unemployment rate down to 6.1%, the lowest in almost 25 years. A strong increase in the labour force pushed Alberta's unemployment rate to 4.0%. In contrast, Manitoba's unemployment rate decline to 4.8% as less people sought jobs.

- Despite job losses, Quebec's unemployment rate declined to 7.9% as less people were looking for work. Ontario's unemployment rate edged down to 6.8%.

- The unemployment rate rose by 1.2 percentage points to 16.1% in Newfoundland & Labrador while there was little changes in other provinces.



Provincial Employment and Unemployment Trends

	Employment (thousands)					Unemployment Rate (%)		
	Levels	Change since last month		Change since last year		Levels	Change since	
	2005 April	(000's)	%	(000's)	%	2005 April	last month	last year
Canada	16,117.7	29.3	0.2	214.2	1.3	6.8	-0.1	-0.4
Newfoundland & Labrador	212.2	-4.3	-2.0	-1.0	-0.5	16.1	1.2	-0.1
Prince Edward Island	68.1	-0.3	-0.4	2.8	4.3	10.4	0.0	-1.5
Nova Scotia	444.9	1.8	0.4	5.4	1.2	8.4	-0.2	-0.5
New Brunswick	350.9	1.3	0.4	3.3	0.9	9.3	-0.1	-0.5
Quebec	3,704.9	-5.9	-0.2	13.3	0.4	7.9	-0.3	-0.5
Ontario	6,377.5	26.1	0.4	79.8	1.3	6.8	-0.1	0.0
Manitoba	575.9	-0.6	-0.1	1.0	0.2	4.8	-0.5	-0.4
Saskatchewan	485.2	-4.4	-0.9	4.1	0.9	5.0	-0.2	-0.4
Alberta	1,783.8	2.2	0.1	24.5	1.4	4.0	0.5	-0.3
British Columbia	2,114.3	13.3	0.6	81.1	4.0	6.1	-0.4	-1.4

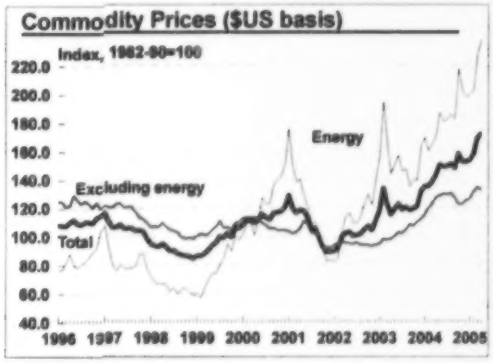
Consumer and Commodity Prices

Inflation rose to 2.3% in March...

- On a year-over-year basis, the increase in the Consumer Price Index (CPI) was 2.3% in March, up from 2.1% in February. Excluding energy, inflation also edged up to 1.7% from 1.6% in February.
- On a month-to-month basis (seasonally adjusted), the CPI increased 0.3% in March following a 0.2% rise in February.
- Year-over-year inflation in March was highest in Manitoba, Saskatchewan, and Newfoundland & Labrador. Inflation in Alberta and British Columbia was the lowest among provinces at 1.8% and 2.1%, respectively.
- The year-over-year increase in commodity prices was 20.1% in April, about the same as in March. Energy price inflation rose further to 39.6% in April from 37.9% in March. On a monthly basis, the rise in commodity prices moderated to 1.7% from 7.2% in February. Excluding energy, commodity prices declined 1.0% in April following a 2.3% rise in March.

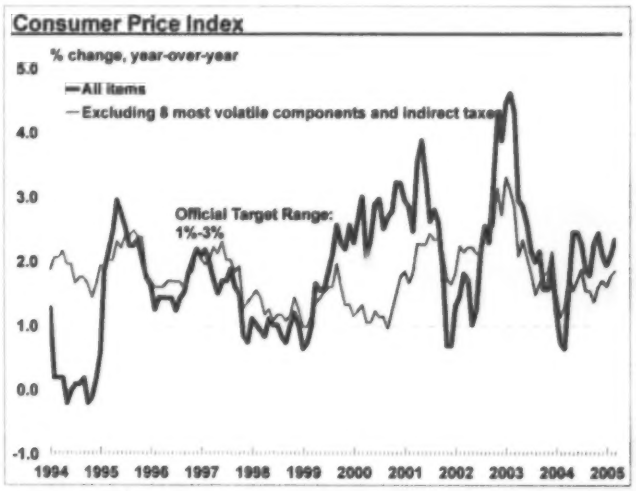
...and the core inflation rate rose to 1.9%

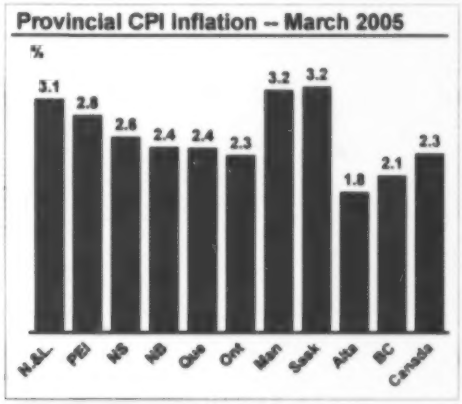
- The "core" rate of inflation, which excludes the eight most volatile components and indirect taxes, rose to 1.9% in March from 1.8% in February, below the midpoint of the 1%-3% official target range.



Consumer Prices

March 2005	Index (1992=100)	% Change since * last month	% Change since last year
All items CPI	126.5	0.3	2.3
Food	127.1	0.2	2.8
Shelter	123.0	0.3	3.4
Household operations	115.7	0.1	0.3
Clothing & Footwear	108.0	1.3	0.7
Transportation	148.3	0.9	3.9
Health & Personal Care	120.0	0.4	1.4
Recreation, Educ. & Reading	126.8	-0.2	-0.4
Alcohol & Tobacco	146.3	0.9	3.5
Excl. 8 Most Volatile	126.0	0.1	1.9
Energy	156.9	N/A	9.5
* All items CPI & components seasonally adjusted			
Commodity Prices (April 2005)			
Index, 1982-90=100	171.8	1.7	20.1
Excluding Energy	133.0	-1.0	4.7
Energy	237.2	4.4	39.5





Short-term and Long-term Interest Rates

U.S. short-term rates rose further in May...

- As widely expected, the Federal Reserve in the United States raised the fed funds rate by a further 25 basis points (bps) to 3.0% on May 3, bringing the cumulative rate increases since September 2004 to 2 percentage points. The measured pace of rate hikes have continued in an environment of gradual labour market improvements and low inflation in the U.S. In comparison, the Bank of Canada has kept the target for the overnight rate unchanged at 2.5% since October, and market analysts expect that the Bank will not likely adjust its policy rate on May 25, the next scheduled annoucement date.

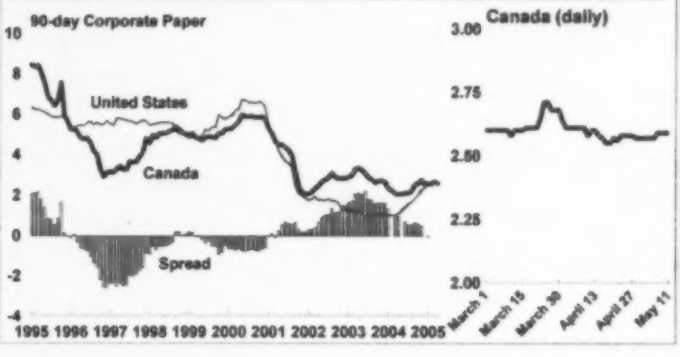
- Canadian short-term rates remained near 2.6% from mid-April to mid-May. Meanwhile, U.S. rates continued to rise in May, and were 3.1% on May 13. With U.S. rates rising and Canadian rates holding steady, the negative spread between Canada-U.S. rates widened from about -40 bps to -54 bps.

...and North American long-term yields retreated further

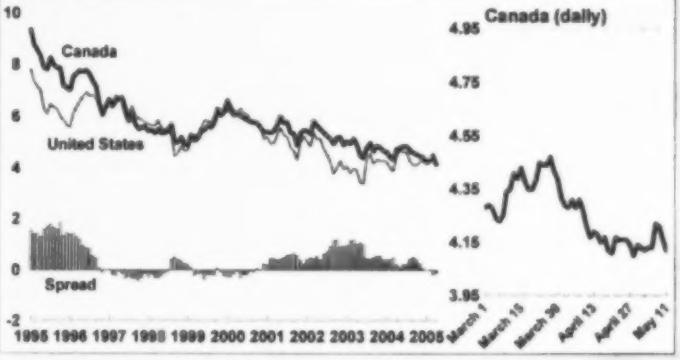
- Long-term rates fell further in May following a downturn in April, amid concerns of moderating economic activity in the U.S. Ten-year yields in the U.S. have trended down since March 28 (4.64%) and were 4.12% on May 16. In Canada, yields also fell about 50 bps since late March to 4.05% on May 16. The negative Canada-U.S. spread on long-term yields narrowed to -7 bps, compared to -20 bps in mid-April.

- With declining long-term yields, mortgage rates moderated again in mid-April. One-year mortgage rates were 4.90% on May 11, down 15 bps since April 20, and five-year rates fell back to 6.05% from 6.25%.

Short-term Interest Rates



Long-term Bond Yields



Key Market Rates

(end of period)	90-day Corporate Paper	spread against U.S.	Long Bond Yield	spread against U.S.
2003	2.66	1.62	4.66	0.39
2004	2.57	0.16	4.39	0.06
November	2.74	0.49	4.44	0.24
December	2.57	0.16	4.39	0.06
January	2.56	-0.04	4.21	0.00
February	2.57	-0.16	4.28	0.01
March	2.68	-0.31	4.39	-0.17
April	2.58	-0.48	4.14	-0.11
May 11 *	2.59	-0.55	4.12	-0.09

A positive spread indicates that Canadian rates are above their U.S. counterparts. * Bank of Canada's Weekly Financial Statistics

Key Lending Rates

(end of period)	Overnight Rate	Prime Lending Rate	Mortgage Rate 1 year	5 year
2003	2.75	4.50	4.75	6.45
2004	2.50	4.25	4.80	6.05
November	2.50	4.25	5.00	6.30
December	2.50	4.25	4.80	6.05
January	2.50	4.25	4.80	6.05
February	2.50	4.25	4.80	6.05
March	2.50	4.25	5.05	6.25
April	2.50	4.25	4.90	6.05
May 11 *	2.50	4.25	4.90	6.05

* Bank of Canada's Weekly Financial Statistics

Exchange Rates and Stock Prices

The Canadian dollar has traded near US¢80 in May

- The Canadian dollar declined 2.5% from April 12, and 5.3% from a recent high on March 17 (US¢83.2), to close at US¢78.8 on May 16. The widening of the negative spread between Canadian and U.S. short-term interest rates and the decline in oil prices, which fell from a high of US$58 per barrel in April to below US$50 per barrel in mid-May, were factors contributing to the decline in the value of the Canadian dollar.

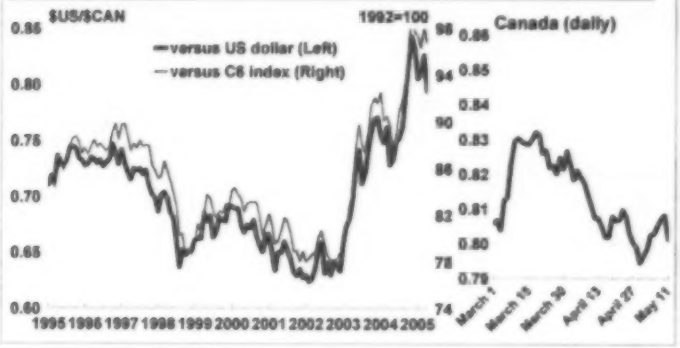
- The Canadian dollar gained some strength against the euro and Japanese yen in May. It appreciated 1.2% against the euro from April 29 to May 16 but was still 2.4% below its level in early April. Vis-à-vis the Japanese yen, the Canadian dollar also appreciated 1.2% from April 29 to May 16, but declined 5.2% from a recent peak on April 7.

North American stock indices remain subdued

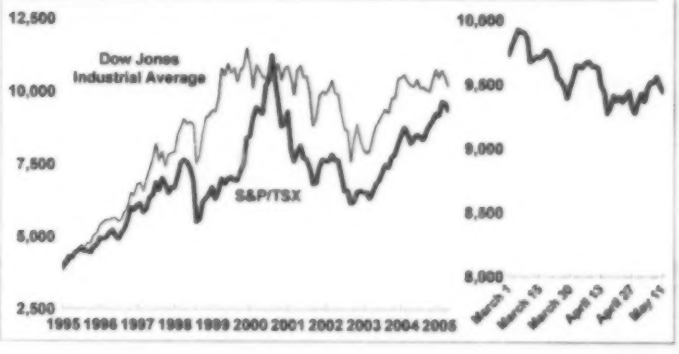
- Lower energy prices have impacted Canadian equity markets. Growth in the S&P/TSX index was flat from mid-April to mid-May, closing on May 16 at 9,323. This was 6.1% below its high on March 4. Most sub-indices, including energy, metals & mining, materials, and gold, posted notable losses in April.

- The Dow Jones closed at 10,252 on May 16, up 1.8% from a recent low of 10,070 on April 28, but below its level one month ago (10,508). Activity in U.S. equity markets appears to have dampened somewhat despite lower long-term bonds yields and falling oil prices in May.

Canadian Dollar



Stock Market Indices



The Canadian Dollar

(close)	$US vs. $CAN	Index vs. C-6 (92=100)	$CAN vs. EURO	yen vs. $CAN
2003	0.7713	91.65	1.628	82.96
2004	0.8319	97.74	1.629	85.27
November	0.8432	99.92	1.577	86.76
December	0.8319	97.74	1.629	85.27
January	0.8057	97.41	1.618	83.49
February	0.8107	96.40	1.633	84.75
March	0.8267	98.17	1.568	88.65
April	0.7946	96.82	1.619	83.31
May 11	0.8014	95.95*	1.598	84.77

* Bank of Canada's Weekly Financial Statistics

Key Stock Market Indexes

	April Close	% change from last month	% change from last year
S&P/TSX	**9,369**	**-2.5**	**13.7**
Energy	223	-5.3	35.4
Metals & Mining	291	-6.8	48.8
Utilities	164	0.2	9.5
Materials	154	-7.0	10.3
Industrial	80	-1.5	6.4
Financial	160	1.0	14.7
Gold	179	-7.5	-3.9
Telecommunication	78	0.5	26.8
Information Technology	27	-7.2	-7.5
Consumer Discretionary	94	1.1	6.4
Consumer Staples	203	0.0	19.1
S&P 500	**1,166.8**	**-2.0**	**4.5**
Dow Jones	**10,193**	**-3.0**	**-0.3**

THE UNITED STATES ECONOMY

U.S. Economic Trends

Economic activity continued to expand, but at a slower pace, in the first quarter...

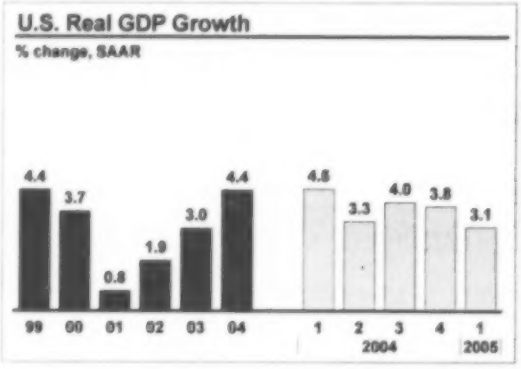
- Economic activity rose by 3.1% in the first quarter (advance estimates) after a 3.8% gain in the fourth quarter. Major contributors to growth were consumer spending, private inventories, exports, and business investment in equipment and software. The slowing in real GDP growth in the first quarter was mainly due to higher imports growth and lower growth of business investment in equipment and software.

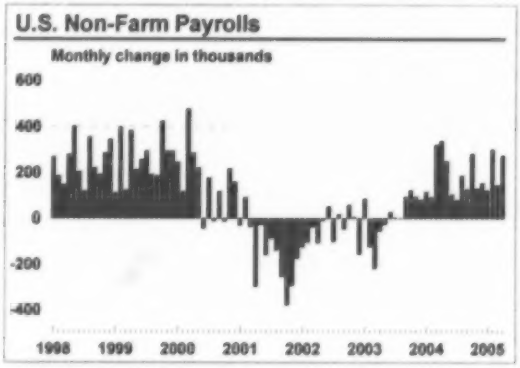
...but growth should slow down in coming months

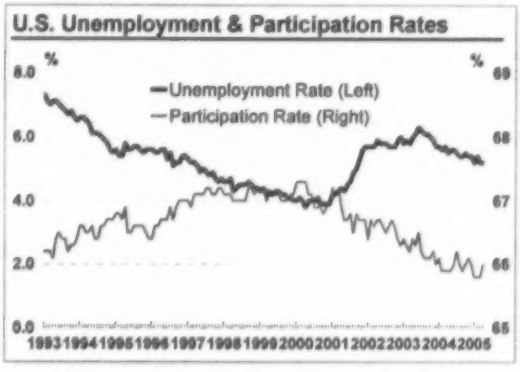
- The Institute of Supply and Management (ISM) manufacturing and non-manufacturing indexes declined in April but economic activity in both sectors continue to expand (a reading above 50 indicates the sector is expanding). The manufacturing index stood at 53.3 in April, down 1.9 points from March, while the non-manufacturing index reached 61.7, 1.4 points lower than in the previous month. Activity in the manufacturing sector increased for the 23rd consecutive month, the longest period of growth in the last 16 years.

- Privately-owned housing starts declined 17.6% in March from the previous month. Furthermore, building permits decreased 4.0% over the same period, suggesting that housing starts might weakened further in coming months.

- Non-farm employment rose by 274,000 in April after increasing by 146,000 in March. Notable increases were witnessed in construction, mining, food services and health care. Manufacturing employment was little changed. The unemployment rate remained unchanged at 5.2%.



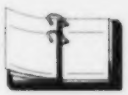




Source: U.S. Bureau of Economic Analysis & U.S. Bureau of Labor Statistics

COMING UP

Key Future Data Releases and Planned Events



CANADA

Consumer Price Index - April	May 20
Key Policy Interest Rate Announcement	May 25
Financial Statistics for Enterprises - 1st Quarter 2005	May 26
Balance of International Payments - 1st Quarter 2005	May 30
Real GDP by Industry - March	May 31
National Economic and Financial Accounts - 1st Quarter 2005	May 31
Labour Force Survey - May	June 10
Canadian International Merchandise Trade - April	June 10
Monthly Survey of Manufacturing - April	June 14

UNITED STATES

Consumer Price Index - April	May 18
GDP - 1st Quarter 2005 (preliminary)	May 26
The Employment Situation - May	June 3
International Trade in Goods and Services - April	June 10
Federal Open Market Committee Meeting	June 29/30

Note: The May 2005 MEI uses data available as of May 13, 2005

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Monthly Economic Indicators

June 2005
Includes Special Reports on:
Canada's National Accounts and Labour Productivity for First Quarter 2005

The "Monthly Economic Indicators" (MEI) provides a variety of economic analysis and data in a convenient format. The MEI does not interpret or evaluate government policies, and every attempt is made to present factual information in an informed and balanced manner consistent with generally accepted economic principles. It is available to all employees of Industry Canada in either hard or electronic copy, or can be accessed via the Internet at http://strategis.ic.gc.ca/epic/internet/ineas-aes.nsf/en/h_ra01898e.html

Canada

MONTHLY ECONOMIC INDICATORS

June 2005

HIGHLIGHTS

- *Real Gross Domestic Product (GDP) strengthened modestly to 2.3% (annual rate) in the first quarter of 2005, fuelled by consumer spending and investment in machinery and equipment (M&E).*
- *In March, real GDP (at basic prices) fell marginally by 0.1% after increases in January and February.*
- *35,400 new jobs were created in May and a total of 64,700 in the past two months. The unemployment rate remained at 6.8% in May and fell to 5.7% in British Columbia, its lowest level since January 1981.*
- *Combined with other economic indicators, this bodes well for continued growth in the second quarter.*
- *Labour productivity growth in the business sector slowed to 0.7% (annual rate) in the first quarter.*
- *In the United States (U.S.), real GDP growth in the first quarter was revised up to 3.5% (annual rate). The faster U.S. growth led to a stronger gain in labour productivity growth in the business sector (2.6%) than in Canada.*
- *The Canadian dollar has rebounded to over 80 cents U.S., in part due to rising oil prices.*

Key Monthly Economic Indicators

		% Change since last month	% Change since last year	
Real GDP ($97 B)	1,061.9	-0.1	2.4	Mar.
Goods	329.8	-0.6	1.4	Mar.
Services	733.6	0.1	2.8	Mar.
Composite Index	203.6	0.4	5.3	Apr.
Employment (000's)	16,153	0.2	1.3	May
Full-time	13,161	0.2	1.4	May
Part-time	2,992	0.4	1.2	May
Unemployment* (%)	6.8	6.8	7.1	May
Youth*	12.5	12.3	13.7	May
Adult*	5.7	5.7	5.9	May
CPI inflation*	2.4	2.3	1.6	Apr.
Retail Sales ($M)	30,409	0.2	5.7	Mar.
Housing Starts (000's)**	218.8	-5.0	-5.5	May
Trade Balance* ($M)	5,055	4,804	5,422	Apr.
Exports	36,364	0.3	0.6	Apr.
Imports	31,309	-0.5	5.6	Apr.
M&E	8,991	0.0	6.4	Apr.

	June 15 ***	May 2005	May 2004
3-mth Corp. paper (%)*	2.60	2.59	2.07
Long bond yield (%)*	3.93	4.02	4.77
Canadian dollar (US¢)*	80.81	79.67	73.35

*Data in levels only – % change not reported
**Canada Mortgage and Housing Corporation
***Bank of Canada's Weekly Financial Statistics
All other data from Statistics Canada

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Industry Canada Industrie Canada

Canada

MONTHLY ECONOMIC INDICATORS
June 2005

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This issue uses data available as of June 15, 2005. It has been prepared by Éric Chalifoux, Kevin Koch, Sue Moore and François Rimbaud of the Micro-Economic Analysis Directorate, under the direction of Robert Lamy and Hossein Rostami. Translation has been provided by Lucie Larocque and Sue Hopf is responsible for production support.

Sources of information primarily include Statistics Canada, as well as the Bank of Canada, Canada Mortgage and Housing Corporation, Canadian Real Estate Association, Conference Board of Canada, U.S. Bureau of Economic Analysis, and U.S. Bureau of Labor Statistics. Unless cited otherwise, data contained in graphs and tables are derived from Statistics Canada.

Please address comments to Robert Lamy at (613) 957-7842 or through the Internet at lamy.robert@ic.gc.ca.

ISSN 1495-4516

Real GDP by Industry

Economic activity fell in March...

- Real GDP at basic prices edged down 0.1% in March following an increase of 0.2% in both February and January. The decline occurred in both the business and non-business sectors. On a year-over-year basis, economic activity rose by 2.4% led by a strong gain in the business sector (2.6%).

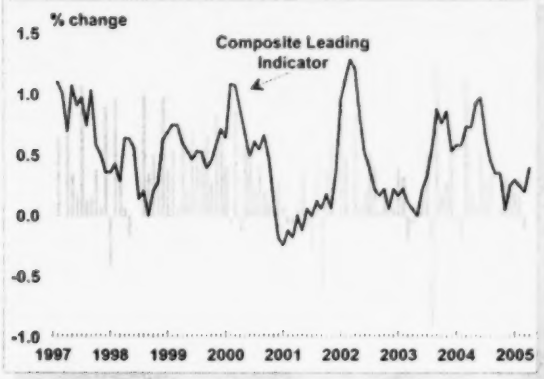
...because of lower production in the goods sector...

- Goods production fell 0.6% in March after declining 0.4% in February. Production in the manufacturing sector fell 0.9% with losses concentrated in the durable goods industries. Output in the automotive sector dropped significantly as manufacturers responded to changing demand. On the other hand, activity in the utilities sector increased 1.3% with gains in the generation of electricity and the distribution of natural gas.

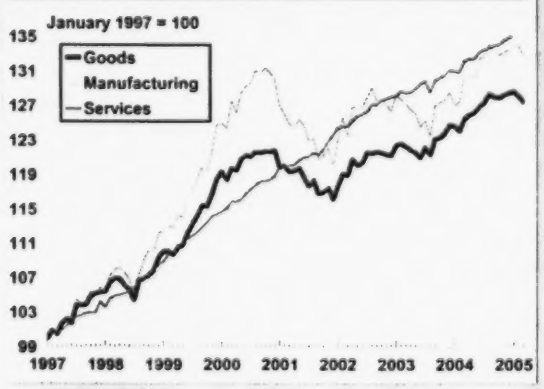
...and slower growth in the services sector

- Service output edged up 0.1% in March after rising 0.5% in February with gains led by wholesalers and administrative and waste management services. Educational services declined strongly in March mostly due to walkouts by students in Quebec. Moreover, retailing activity fell 0.2% with losses concentrated in automotive and clothing and accessories stores.

Real GDP at Basic Prices



Real GDP by Major Sector



Real GDP at Basic Prices (1997 chained dollars)

March 2005

	$ millions	monthly change	% Change since last month	% Change since last year
Total Economy	**1,061,948**	**-1,152**	**-0.1**	**2.4**
Business Sector	**903,724**	**-857**	**-0.1**	**2.6**
Goods-producing	**329,789**	**-1,917**	**-0.6**	**1.4**
Agri., Forest, Fish, Hunt*	23,942	-137	-0.6	1.3
Mining & Oil & Gas Extraction	36,462	-340	-0.9	-2.9
Utilities	26,818	335	1.3	8.7
Construction	59,709	-170	-0.3	2.0
Manufacturing	183,267	-1,573	-0.9	1.6
Services-producing	**733,584**	**878**	**0.1**	**2.8**
Wholesale Trade	69,897	568	0.8	7.0
Retail Trade	61,727	-127	-0.2	3.8
Transportation & Warehousing	51,056	-55	-0.1	3.2
Information & Cultural	44,014	122	0.3	3.7
FIRE**	215,159	455	0.2	3.3
Professional***	46,805	129	0.3	1.4
Admin. & Waste Mgmt	22,404	119	0.5	2.5
Education	45,727	-487	-1.1	2.2
Health & Social	63,025	158	0.3	0.9
Arts, Entertain. & Recreation	9,407	-99	-1.0	-2.2
Accommodation & Food	23,538	-68	-0.3	0.8
Other	24,859	41	0.2	1.8
Public Administration	57,886	184	0.3	1.4

*Agriculture, Forestry, Fishing & Hunting
**Finance, Insurance & Real Estate
***Professional, Scientific & Technical services

Consumer Spending and Confidence

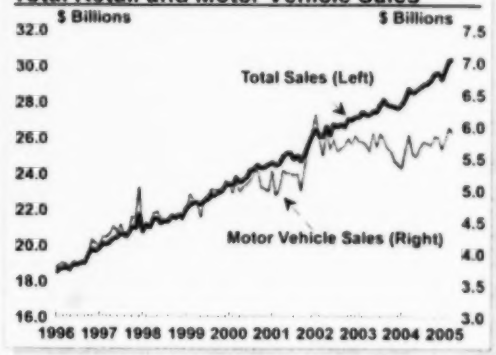
Consumption strengthened in the first quarter...

- Growth in real consumer spending picked up significantly to 6.3% in the first quarter, driven by low interest rates, strong income growth over the past year and solid consumer confidence.
  - The strong increase in consumption was led by over 10% growth in purchases of both durables and semi-durables. Spending on services, accounting for more than half of spending, rose by 4.4%.
- Consumer spending increased at a faster pace than disposable income leading to a first ever recorded negative personal savings rate of 0.6%.

...and prospects are good for solid consumer spending in the second quarter

- The index of consumer confidence recovered by 1.2% in May and remained well above its 10-year average (113.8).
  - The increase in confidence was witnessed in all regions except Quebec, where it fell by 0.4%.
- Motor vehicle sales rebounded 1.6% in April, following a 4.1% decline in March. However, preliminary figures point to a 6.0% decline in May.
- High consumer confidence and stronger job creation so far in the second quarter bode well for consumption. The Consensus Forecasts project growth of 2.8% (annual rate) in consumer spending in the second quarter.

Total Retail and Motor Vehicle Sales



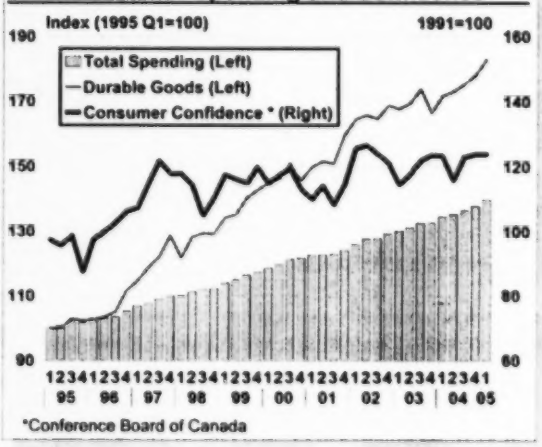
Retail Sales and Consumer Credit

March 2005	$ millions	% Change since last month	% Change since last year
Total Retail Sales (S.A.)	30,409	0.2	5.7
Food	6,027	1.2	8.1
Drug Stores	1,983	1.0	6.2
Clothing	1,746	-0.7	1.9
Furniture	1,976	-1.3	7.8
Automotive	10,181	-0.8	4.9
General Merch. Stores	3,666	1.1	4.9
All other Stores	4,829	0.9	5.8
Total ex. motor vehicles	23,276	0.9	7.4
Consumer Credit	278	1.0	11.0

Real Consumer Spending and Household Finances

$ Millions, SAAR (unless otherwise noted)	2003	2004	2004 Q4	2005 Q1
Real Consumption (97$)	619,401	640,630	648,794	658,810
% change	*3.1*	*3.4*	*3.8*	*6.3*
Durable Goods	95,189	98,119	100,130	102,848
% change	*2.1*	*3.1*	*6.6*	*11.3*
Semi-Durable Goods	56,474	59,583	60,344	61,905
% change	*3.4*	*5.5*	*0.0*	*10.8*
Non-Durable Goods	140,349	143,583	145,154	147,405
% change	*2.3*	*2.3*	*4.0*	*6.3*
Services	328,208	340,385	344,352	348,096
% change	*3.7*	*3.7*	*3.7*	*4.4*
Disposable Income	719,553	747,496	757,772	759,996
% change	*3.7*	*3.9*	*3.5*	*1.2*
Saving Rate (%)	2.4	1.4	1.0	-0.6
Debt-to-Income Ratio (%)	100.7	103.8	105.0	106.6

Real Consumer Spending and Confidence



*Conference Board of Canada

Business Investment

Investment rose strongly again in the first quarter...

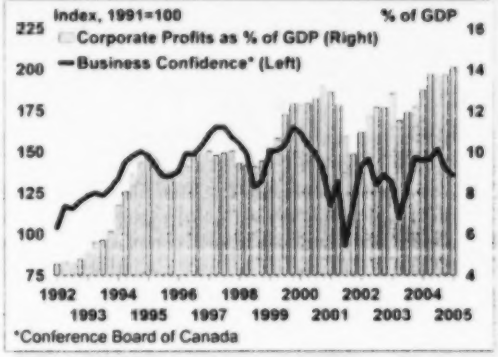
- Real business fixed investment rose 12.7% in the first quarter, following a 9.9% gain in the previous quarter. Growth in investment has been very strong in the past three quarters.
  - After gains of 11.4% and 16.5% in the previous two quarters, investment in machinery and equipment (M&E) grew very strongly by 16.3% in the first quarter.
  - Investment in non-residential structures picked up sharply to 7.5% in the first quarter, the largest increase in more than a year.

...amid higher profits

- The profit share of GDP rose to 14.1% in the first quarter, the highest level ever recorded. Operating profits (income minus expenses before deductions) rose 14.5%, after an upwardly revised gain of 13.9% in the previous quarter.
  - Financial companies reported 25.7% growth in operating profits. Chartered banks were the main contributors to this increase.
  - Non-financial companies reported 11.0% growth in operating profits, following a 23.2% gain in the previous quarter. Manufacturing industries' profits rebounded 4.8% after a decline of 20.5% in the previous quarter.
- The capacity utilization rate declined slightly in the first quarter, but remained well above its 10-year average (84.4%). Combined with record profits and healthy business confidence, this bodes well for future investment growth.

Investment in Plant and Equipment

Corporate Profits & Business Confidence



*Conference Board of Canada

Business Investment and Corporate Finances

$ Millions, SAAR (unless otherwise noted)	2003	2004	2004 Q2	2004 Q3	2004 Q4	2005 Q1
BUSINESS INVESTMENT						
Machinery & Equipment (1997$)	85,415	93,754	91,675	94,175	97,838	101,599
% change	*6.4*	*9.8*	*1.5*	*11.4*	*16.5*	*16.3*
Non-residential Construction (1997$)	47,534	47,936	47,815	48,018	48,124	49,007
% change	*5.7*	*0.8*	*0.3*	*1.7*	*0.9*	*7.5*
Capacity Utilization (%, Non-farm goods)	83.7	85.5	85.1	86.4	86.6	86.4
Capacity Utilization (Mfg. sector)	81.4	84.7	84.0	86.3	86.5	87.0
CORPORATE FINANCES & ATTITUDES						
Corporate Operating Profits	160,967	193,608	197,284	192,740	199,104	205,948
% change	*10.4*	*20.3*	*28.5*	*-8.9*	*13.9*	*14.5*
Profits - Non-financial industries	118,204	144,320	148,352	143,044	150,704	154,704
% change	*4.9*	*22.1*	*45.1*	*-13.6*	*23.2*	*11.0*
Profits - Financial industries	42,764	49,289	48,932	49,700	48,400	51,244
% change	*29.1*	*15.3*	*-9.2*	*6.4*	*-10.1*	*25.7*
Business Credit	903,474	940,033	932,508	947,818	960,166	976,668
% change	*1.4*	*4.0*	*5.7*	*6.7*	*5.3*	*7.1*

Housing

Residential construction declined in the first quarter...

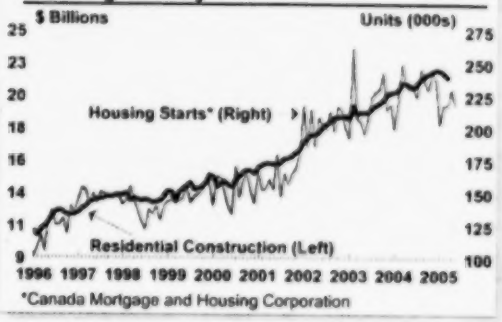
- Investment in residential construction fell by 1.5% in the first quarter, the first decline in five years.
  - The decline was a result of a 6.3% drop in new housing construction, following an average increase of 7.8% in the seven previous quarters.
  - Ownership transfer costs and renovation rose by 7.2% and 1.8 %, respectively.
  - Renovation expenditures increased (1.8%) at their slowest pace since the second quarter of 2002. Meanwhile, ownership transfer costs recovered (7.2%) from two consecutive declines, reflecting higher sales of existing homes.

...and housing starts rebounded so far in the second quarter

- Housing starts declined to 218,800 in May, following a 5.5% gain in April*.
  - The sharp rebound in residential building permits in April, a leading indicator of new housing construction, suggests stronger housing starts in the coming months. Assuming no growth in June, housing starts should increase by 18.5% in the second quarter.
- So far this year, housing starts have averaged 218,000, below the 227,400 average over the same period last year.
- The June Consensus Forecasts expect housing starts to decline by 9.4% to 211,000 in 2005.

* Analysts have pointed out that previously delayed construction (due to bad weather) could partly explain April's strong increase.

Housing Activity



*Canada Mortgage and Housing Corporation

Monthly Housing Indicators

	Levels	Change since Last month	Change since Last year
Residential Construction (1)* ($97M, basic prices)	21,566	-1.4%	1.8%
Building Permits, $M (2)*	3,158	7.8%	0.8%
Sales of Existing Homes (2)** (# of units, major markets)	28,061	1,448	180
Housing Starts, (3)*** (# of units, SAAR)	218,800	-11,600	-12,800
Newfoundland & Labrador	2,100	500	-600
Prince Edward Island	1,100	600	0
Nova Scotia	5,600	-1,000	1,500
New Brunswick	4,500	900	0
Quebec	47,200	-10,400	-9,400
Ontario	70,400	-11,100	-17,500
Manitoba	3,800	-300	-500
Saskatchewan	2,900	200	-4,300
Alberta	44,400	3,700	14,800
British Columbia	36,600	5,300	3,000

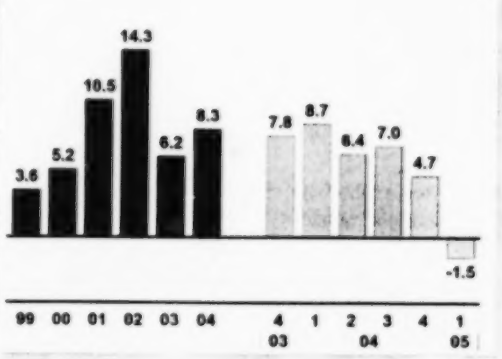
1 - March data; 2 - April data; 3 - May data
Sources: *Statistics Canada; **Canadian Real Estate Association; ***Canada Mortgage and Housing Corporation

Real Investment in Residential Structures

$97 Millions, SAAR (unless otherwise noted)	2003	2004	2004 Q4	2005 Q1
Residential Construction	61,688	66,801	68,209	67,944
% change	*6.2*	*8.3*	*4.7*	*-1.5*
New Housing	30,687	33,323	34,068	33,519
% change	*6.1*	*8.6*	*6.4*	*-6.3*
Alterations & Improvements	22,229	24,215	25,264	25,380
% change	*7.9*	*8.9*	*15.1*	*1.8*
Ownership & Transfer Costs	8,841	9,382	9,128	9,288
% change	*2.8*	*6.1*	*-17.9*	*7.2*

Growth in Real Residential Construction

% change, SAAR



Trade and Competitiveness

Exports increased while imports declined in April...

- Merchandise exports rose 0.3% in April, after a 2.1% gain in March, led by strong gains in machinery and equipment and agricultural and fishing products. The rise in exports of machinery and equipment was led by the aircraft and telecommunication industries. Furthermore, telecommunication exports reached their highest level since June 2001. Geographically, exports to the European Union surged 7.5% in April. Overall, real exports fell 1.5% while prices increased 1.8%.

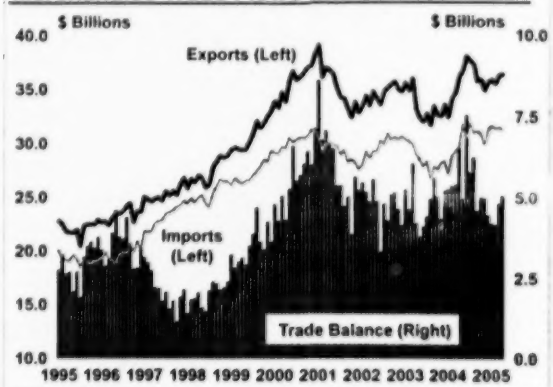
- Imports declined 0.5% in April after a 0.4% gain in March. Imports of energy products and industrial goods and materials fell the most. Imports of machinery and equipment remained unchanged after increasing in the previous four months. Overall, real imports declined 1.5% and prices rose 1.0%.

...pushing the trade surplus higher

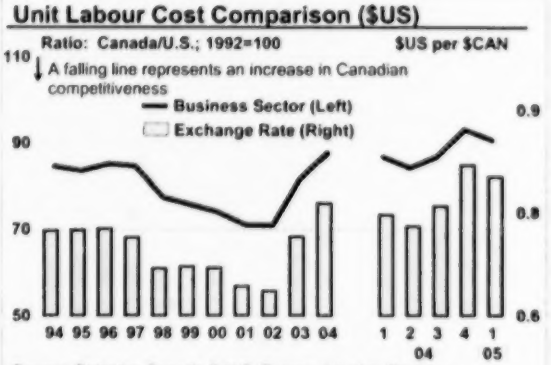
- Canada's trade surplus increased by $251 million to $5.1 billion in April. The trade surplus with the U.S. fell by $159 million to $8.2 billion and the trade deficit with other countries decreased by $410 million to $3.1 billion.

- However, in real terms, the merchandise trade balance fell to $9.7 billion (annual rate) in April, but the level is still above the first quarter average.

Merchandise Trade Flows and Balance



Unit Labour Cost Comparison ($US)



Source: Statistics Canada & U.S. Bureau of Labor Statistics

Merchandise Trade

April 2005	Levels ($ millions)		Year-to-date ($ millions)		Change ($M)	% Change	
	March 2005	April 2005	Jan.-Apr. 2004	Jan.-Apr. 2005	Mar. to Apr. 2005	Mar. to Apr. 2005	Jan.-Apr. 2004 to Jan.-Apr. 2005
Exports	**36,272**	**36,364**	**137,362**	**143,993**	**92**	**0.3**	**4.8**
to United States	29,501	29,378	112,132	117,263	-123	-0.4	4.6
Imports	**31,468**	**31,309**	**114,841**	**125,783**	**-159**	**-0.5**	**9.5**
from United States	21,186	21,222	80,197	84,907	36	0.2	5.9
Trade Balance	**4,804**	**5,055**	**22,521**	**18,210**	**251**		
with United States	8,315	8,156	31,935	32,356	-159		
Exports by Commodity							
Agriculture/Fishing Products	2,412	2,470	10,074	9,778	58	2.4	-2.9
Energy Products	6,174	6,070	20,593	23,293	-104	-1.7	13.1
Forestry Products	3,143	3,111	12,518	12,525	-32	-1.0	0.1
Industrial Goods & Materials	7,182	7,180	24,741	28,170	-2	0.0	13.9
Machinery & Equipment	7,866	8,153	30,109	31,392	287	3.6	4.3
Automotive Products	6,877	6,794	29,514	28,335	-83	-1.2	-4.0
Other Consumer Goods	1,432	1,454	5,738	5,805	22	1.5	1.2
Imports by Commodity							
Agriculture/Fishing Products	1,785	1,829	6,994	7,326	44	2.5	4.7
Energy Products	2,537	2,331	7,058	9,929	-206	-8.1	40.7
Forestry Products	261	263	996	1,056	2	0.8	6.0
Industrial Goods & Materials	6,731	6,484	22,768	26,199	-247	-3.7	15.1
Machinery & Equipment	8,991	8,991	33,135	35,619	0	0.0	7.5
Automotive Products	6,131	6,458	24,702	25,640	327	5.3	3.8
Other Consumer Goods	4,106	3,969	15,337	16,206	-137	-3.3	5.7

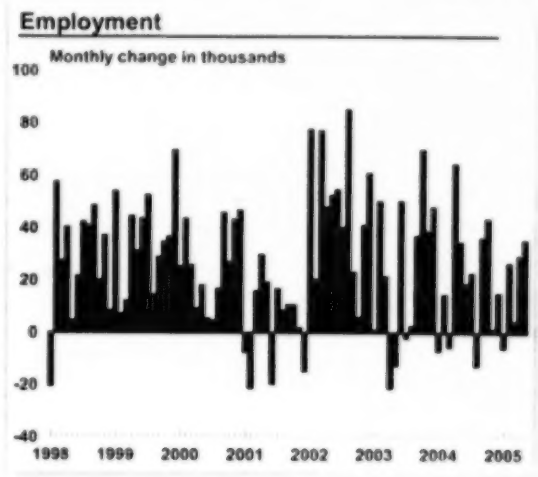
Employment and Unemployment

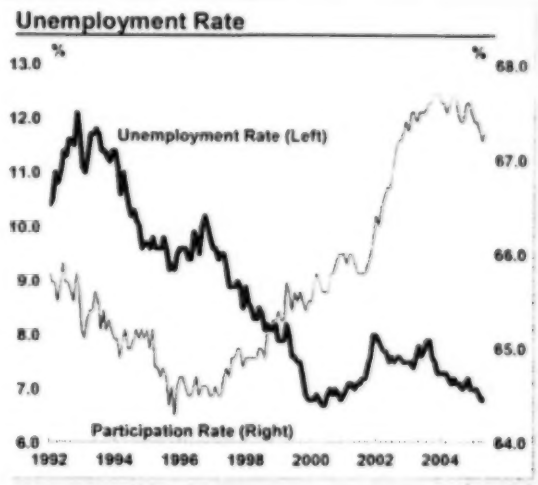
Employment rose further in May...

- Employment rose 35,400 in May, following an increase of 29,300 in April. Employment rose in both full-time (23,300) and part-time (12,000).
- Since the beginning of the year, employment has increased 0.6% (or 90,000), mostly in full-time employment.
- Reversing an earlier trend, the employment gain in May was in the private sector (57,500) while employment in the public sector declined (16,800). So far this year, public sector employment is up 28,600 while private paid employment and self-employment are up 18,600 and 42,700, respectively.
- Youth employment rose 12,300 in May, following a slight increase in April. So far this year, youth employment is down 0.7%, mostly in part-time jobs.

...but the unemployment rate remained at 6.8%

- The unemployment rate remained at 6.8% as the employment gain was offset by higher labour force participation.
- Higher labour force participation among youth pushed the youth unemployment rate up to 12.5% in May, from 12.3 in April.
- The employment rate remained at 62.7%, near its record high of 62.8%.





Labour Force Trends

(in thousands)	Levels			Change since			% Change since	
	2004 May	2005 April	2005 May	last month	last year	year-to-date	last month	last year
Employment	15,938.2	16,117.7	16,153.1	35.4	214.9	90.0	0.2	1.3
Full-time	12,981.8	13,137.9	13,161.2	23.3	179.4	62.5	0.2	1.4
Part-time	2,956.4	2,979.9	2,991.9	12.0	35.5	27.5	0.4	1.2
Youth 15-24	2,460.1	2,455.2	2,467.5	12.3	7.4	-17.4	0.5	0.3
Adult 25+	13,478.1	13,662.6	13,685.6	23.0	207.5	107.4	0.2	1.5
Self-employed	2,474.3	2,501.6	2,496.1	-5.5	21.8	42.7	-0.2	0.9
Unemployment	1,226.5	1,172.4	1,178.1	5.7	-48.4	-38.8	0.5	-3.9
Unemployment Rate	7.1	6.8	6.8	0.0	-0.3	-0.2		
Youth 15-24	13.7	12.3	12.5	0.2	-1.2	-0.2		
Adult 25+	5.9	5.7	5.7	0.0	-0.2	-0.2		
Labour Force	17,164.7	17,290.1	17,331.2	41.1	166.5	51.2	0.2	1.0
Participation Rate	67.7	67.2	67.3	0.1	-0.4	-0.2		
Employment Rate	62.8	62.7	62.7	0.0	-0.1	-0.1		

Industry Overview

Goods sector employment fell on losses in manufacturing and construction...

- Employment in the Goods sector declined (10,400) in May, after remaining stable in April. Declines in both manufacturing (18,800) and construction (14,900) were partly offset by increases in agriculture (14,700) and natural resources (8,800).

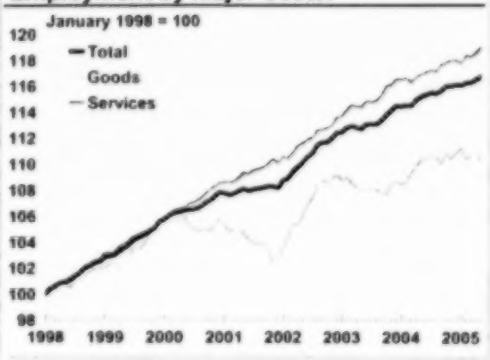
- As manufacturers continue to adjust to a higher Canadian dollar value, job losses in the sector are steadily increasing. Manufacturing employment is down 62,200 since the beginning of the year. Construction employment, meanwhile, declined following a large gain (25,600) in April.

...while service sector employment increased strongly on gains in trade, transportation and warehousing

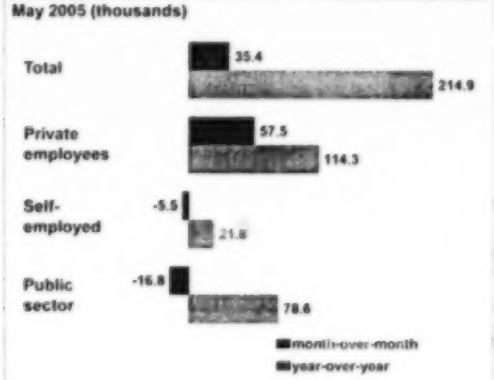
- Employment in the services sector jumped 45,800 in May, following a 28,900 increase in April. Trade industries led the increase with employment gains of 44,800. Transportation and warehousing also registered a strong increase (24,600) while the largest decline was witnessed within educational services (18,300).

- So far this year, employment in services is up 106,400 (with most of the gains in April and May) compared to an increase of 39,900 in the corresponding period last year.

Employment by Major Sector



Employment Growth by Worker Category



Industrial Employment Trends

(in thousands)	Levels			Change since			% Change since	
	2004 May	2005 April	2005 May	last month	last year	year-to-date	last month	last year
Goods-producing	4,005.0	4,017.9	4,007.5	-10.4	2.5	-16.4	-0.3	0.1
Agriculture	329.5	331.7	346.4	14.7	16.9	24.7	4.4	5.1
Natural Resources*	283.9	304.1	312.9	8.8	29.0	11.7	2.9	10.2
Utilities	136.2	125.3	125.0	-0.3	-11.2	0.4	-0.2	-8.2
Construction	944.7	1,018.8	1,003.9	-14.9	59.2	8.9	-1.5	6.3
Manufacturing	2,310.7	2,238.1	2,219.3	-18.8	-91.4	-62.2	-0.8	-4.0
Services-producing	11,933.2	12,099.8	12,145.6	45.8	212.4	106.4	0.4	1.8
Trade	2,483.5	2,536.3	2,581.1	44.8	97.6	56.9	1.8	3.9
Transportation*	814.9	784.5	809.1	24.6	-5.8	22.5	3.1	-0.7
FIRE*	949.6	998.7	1,005.1	6.4	55.5	20.7	0.6	5.8
Professional/Scientific	1,010.6	1,041.3	1,048.9	7.6	38.3	19.1	0.7	3.8
Business/Building	629.0	634.2	650.4	16.2	21.4	17.6	2.6	3.4
Educational Services	1,043.4	1,104.4	1,086.1	-18.3	42.7	29.4	-1.7	4.1
Health Care/Social Assistance	1,745.9	1,714.4	1,706.0	-8.4	-39.9	-30.4	-0.5	-2.3
Information/Culture/Recreation	721.0	727.7	729.9	2.2	8.9	-3.4	0.3	1.2
Accommodation & Food	1,002.5	996.3	987.9	-8.4	-14.6	-28.8	-0.8	-1.5
Other Services	707.7	704.4	691.4	-13.0	-16.3	-10.6	-1.8	-2.3
Public Administration	825.1	857.5	849.6	-7.9	24.5	13.4	-0.9	3.0

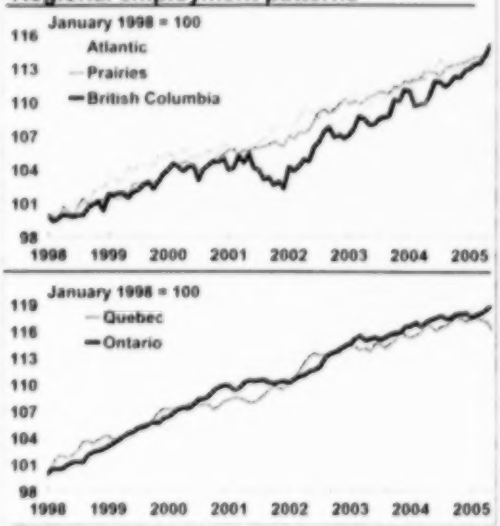
*Natural Resources: Forestry, Fishing, Mining, Oil & Gas; Transportation includes warehousing; FIRE: Finance, Insurance, Real Estate & Leasing.

Provincial Overview

May's employment growth was driven by two provinces...

- In May, Ontario led all provinces in terms of employment gains (32,200) followed by British Columbia (17,700). They also lead in terms of year-to-date increases, registering gains of 56,200 and 42,500, respectively.
- Within the Prairies, employment grew in both Alberta (4,500) and Manitoba (2,700). Employment was relatively unchanged in Saskatchewan.
- Ontario registered its fourth consecutive increase, mostly in construction, transportation and warehousing. Meanwhile, Quebec employment declined (27,300) for a fourth consecutive month, mostly in the public sector.
- Employment rose in both New Brunswick (3,700) and Nova Scotia (3,200). Employment declined by 600 in Prince Edward Island while it remained relatively unchanged in Newfoundland & Labrador.

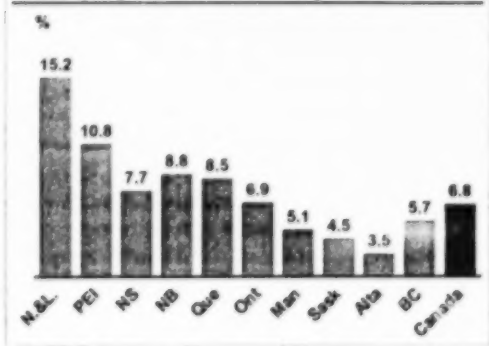
Regional employment patterns



...while the unemployment rate fell in most provinces

- British Columbia's unemployment rate declined to 5.7%, its lowest level since January 1981. The unemployment rate also fell in Alberta and Saskatchewan (to 3.5% and 4.5%, respectively), but rose in Manitoba.
- The unemployment rate rose in both Quebec and Ontario. However, in Ontario's case, it was due to higher labour force participation.
- The unemployment rate declined in three Atlantic provinces, with Prince Edward Island registering the sole increase.

Unemployment Rates --May 2005



Provincial Employment and Unemployment Trends

	Employment (thousands)					Unemployment Rate (%)		
	Levels	Change since last month		Change since last year		Levels	Change since	
	2005 May	(000's)	%	(000's)	%	2005 May	last month	last year
Canada	16,153.1	35.4	0.2	214.9	1.3	6.8	0.0	-0.3
Newfoundland & Labrador	211.8	-0.4	-0.2	-4.4	-2.0	15.2	-0.9	-0.7
Prince Edward Island	67.5	-0.6	-0.9	1.7	2.6	10.8	0.4	-1.3
Nova Scotia	448.1	3.2	0.7	5.0	1.1	7.7	-0.7	-1.2
New Brunswick	354.6	3.7	1.1	3.5	1.0	8.8	-0.5	-1.0
Quebec	3,677.6	-27.3	-0.7	-10.6	-0.3	8.5	0.6	0.4
Ontario	6,409.7	32.2	0.5	96.7	1.5	6.9	0.1	0.0
Manitoba	578.6	2.7	0.5	3.0	0.5	5.1	0.3	-0.2
Saskatchewan	484.9	-0.3	-0.1	5.3	1.1	4.5	-0.5	-0.4
Alberta	1,788.3	4.5	0.3	31.0	1.8	3.5	-0.5	-0.8
British Columbia	2,132.0	17.7	0.8	83.7	4.1	5.7	-0.4	-1.8

Consumer and Commodity Prices

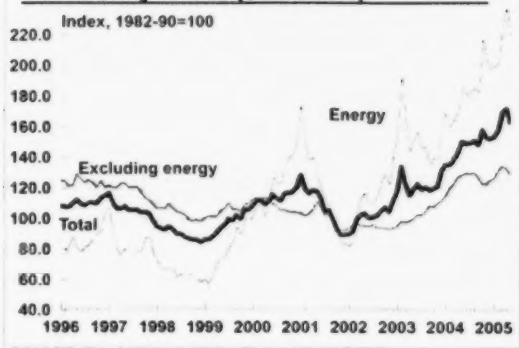
Inflation rose to 2.4% in April...

- On a year-over-year basis, the increase in the Consumer Price Index (CPI) was 2.4% in April, up from 2.3% in March. Excluding energy, inflation moderated slightly to 1.6% from 1.7% in March.
- On a month-to-month basis (seasonally adjusted), the CPI increased 0.3% in April following a 0.4% rise in March.
- Year-over-year inflation in April was highest in Newfoundland & Labrador, Manitoba, and Saskatchewan. Inflation remained the lowest in Alberta and British Columbia, at 2.3% and 2.0%, respectively.
- The year-over-year increase in commodity prices was 8.5% in May, down from 20.1% in April, and the lowest since early 2004. Energy price inflation slowed to 18.0% from 39.6% in April. On a monthly basis, commodity prices fell 5.2% in May compared to a 1.7% rise in April. Excluding energy, commodity prices declined 3.0% in May, following a 1.0% fall in April.

...but the core inflation rate moderated to 1.7%

- The "core" rate of inflation, which excludes the eight most volatile components and indirect taxes, fell to 1.7% in April from 1.9% in March, below the midpoint of the 1%-3% official target range.

Commodity Prices ($US basis)



Consumer Prices

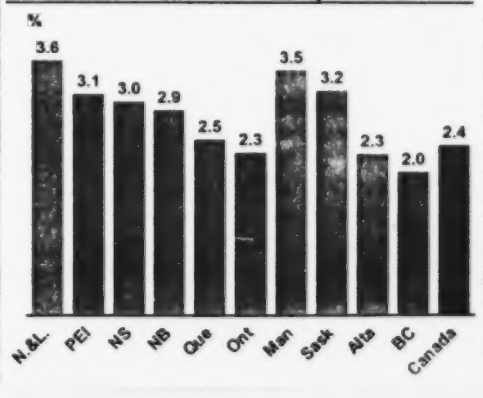
April 2005	Index (1992=100)	% Change since * last month	% Change since last year
All items CPI	126.9	0.3	2.4
Food	128.3	0.9	4.0
Shelter	123.4	0.3	3.2
Household operations	115.5	-0.2	-0.1
Clothing & Footwear	102.9	-1.6	-0.9
Transportation	149.5	0.8	4.2
Health & Personal Care	120.9	0.3	1.6
Recreation, Educ. & Reading	126.8	0.2	0.2
Alcohol & Tobacco	146.5	0.1	3.0
Excl. 8 Most Volatile	126.0	0.1	1.7
Energy	161.9	N/A	10.7

* All items CPI & components seasonally adjusted

Commodity Prices (May 2005)			
Index, 1982-90=100	162.9	-5.2	8.5
Excluding Energy	129.0	-3.0	0.4
Energy	220.1	-7.2	18.0

Consumer Price Index

Provincial CPI Inflation -- April 2005



Short-term and Long-term Interest Rates

Canadian short-term rates continued to hold steady...

- The Bank of Canada held the target for the overnight rate unchanged at 2.5% on May 25, as economic developments since the previous announcement date were generally consistent with the Bank's outlook. In the United States, the Federal Reserve raised the fed funds rate by 25 basis points on May 3 to 2.75%, bringing the cumulative rate increases since September 2004 to 2 percentage points. In its latest statement, the Federal Reserve re-iterated its commitment to raising rates at a measured pace, which will likely continue on June 30, the next FOMC meeting.

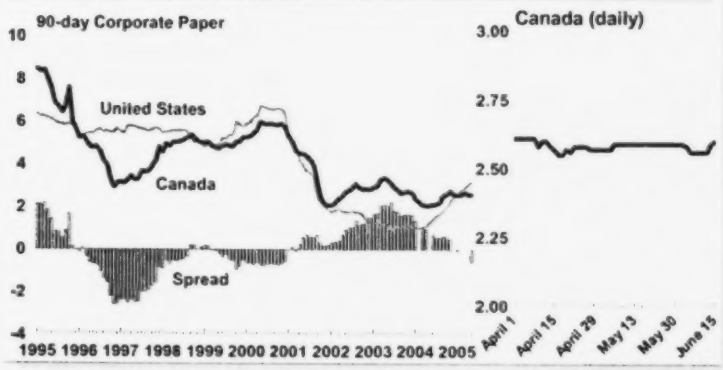
- Canadian short-term rates have remained near 2.6% in the past few months. Meanwhile, U.S. rates continued to rise in June and were 3.3% on June 14. As such, the negative spread between Canada-U.S. rates has widened from about -55 bps to -70 bps.

...and North American long-term yields recovered somewhat in June

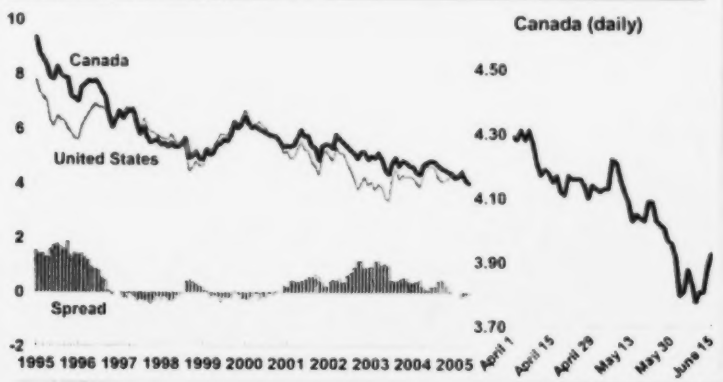
- U.S. long-term rates trended down to a recent low of 3.9% on June 7, down from 4.6% in late March. More positive economic news have since boosted bond yields by about 20 basic points to 4.1% on June 14. In Canada, yields were 3.9% on June 14, up from a low of 3.8% on June 7. The negative Canada-U.S. spread on long-term yields widened to -20, about the same as in mid-April.

- With declining long-term yields, mortgage rates moderated further in June. One-year mortgage rates were 4.75% on June 15, down from 4.90% in mid-May, and five-year rates fell back to 5.70% from 6.05%.

Short-term Interest Rates



Long-term Bond Yields



Key Market Rates

(end of period)	90-day Corporate Paper	*spread against U.S.*	Long Bond Yield	*spread against U.S.*
2003	2.66	1.62	4.66	0.39
2004	2.57	0.16	4.39	0.06
December	2.57	0.16	4.39	0.06
January	2.56	-0.04	4.21	0.00
February	2.57	-0.16	4.28	0.01
March	2.68	-0.31	4.39	-0.17
April	2.58	-0.48	4.14	-0.11
May	2.59	-0.58	4.02	-0.06
June 15 *	2.60	-0.70	3.93	-0.19

A positive spread indicates that Canadian rates are above their U.S. counterparts. * Bank of Canada's Weekly Financial Statistics

Key Lending Rates

(end of period)	Overnight Rate	Prime Lending Rate	Mortgage Rate 1 year	5 year
2003	2.75	4.50	4.75	6.45
2004	2.50	4.25	4.80	6.05
December	2.50	4.25	4.80	6.05
January	2.50	4.25	4.80	6.05
February	2.50	4.25	4.80	6.05
March	2.50	4.25	5.05	6.25
April	2.50	4.25	4.90	6.05
May	2.50	4.25	4.85	5.95
June 15 *	2.50	4.25	4.75	5.70

* Bank of Canada's Weekly Financial Statistics

Exchange Rates and Stock Prices

The Canadian dollar recovered to over US¢80

- The Canadian dollar closed at US¢80.8 on June 16, up 2.5% from May 16 (US¢78.8). Higher oil prices, which rose to US$55 in recent weeks from below US$50 in mid-May, gave some support to the Canadian dollar. The dollar was offset by the impact of the widening of the negative spread between Canadian and U.S. short-term interest rates.

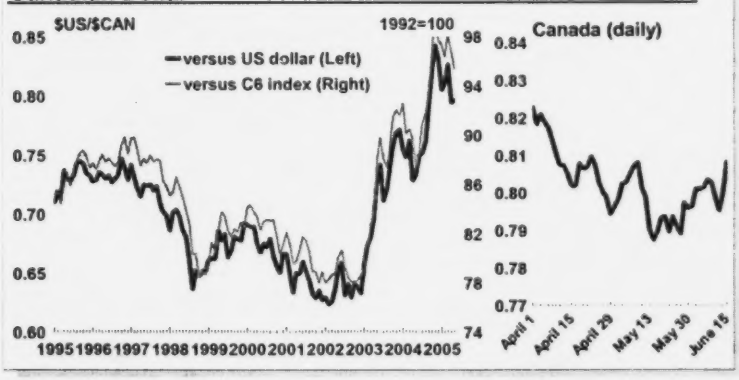
- In comparison, the Canadian dollar gained some strength against the euro and Japanese yen in May. The dollar appreciated 6.2% against the euro from May 16 to June 14, when it closed at its strongest level since September 2003. Vis-à-vis the Japanese yen, the Canadian dollar appreciated 3.4% from May 16 to June 14, but remained 2.0% below its peak on April 6.

North American stock indices regained some ground

- Higher oil prices have helped underpin Canadian equity markets. The S&P/TSX index closed on June 14 at 9,823, 5.9% higher than on May 13 (9,278). Most sub-indices, notably energy, recovered from a decline in April.

- The Dow Jones closed at 10,548 on June 14, up 4.0% from 10,140 on May 13, and about the same as the level in mid-April. Declining long-term bonds yields in May has helped push up U.S. equity markets.

Canadian Dollar

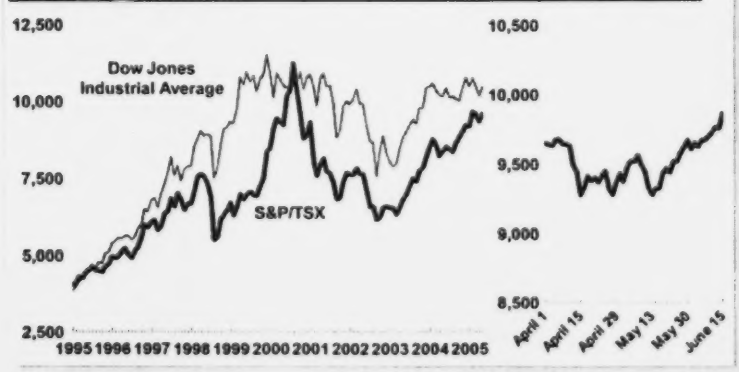


The Canadian Dollar

(close)	$US vs. $CAN	Index vs. C-6 (92=100)	$CAN vs. EURO	yen vs. $CAN
2003	0.7713	91.65	1.628	82.86
2004	0.8319	97.74	1.629	85.27
December	0.8319	97.74	1.629	85.27
January	0.8057	97.41	1.618	83.49
February	0.8107	96.40	1.633	84.75
March	0.8267	98.17	1.568	88.65
April	0.7946	96.82	1.619	83.31
May	0.7967	95.45	1.545	86.48
June 15	0.8081	97.12*	1.499	88.28

* Bank of Canada's Weekly Financial Statistics

Stock Market Indices



Key Stock Market Indexes

	May Close	% change from last month	% change from last year
S&P/TSX	**9,607**	**2.5**	**14.1**
Energy	235	5.6	42.1
Metals & Mining	289	-0.6	31.0
Utilities	170	3.8	18.0
Materials	155	0.7	3.2
Industrial	81	1.8	10.5
Financial	160	0.5	14.6
Gold	181	1.0	-12.7
Telecommunication	78	0.6	29.2
Information Technology	29	7.7	-11.0
Consumer Discretionary	98	4.5	8.8
Consumer Staples	205	0.8	17.2
S&P 500	**1,191.5**	**3.0**	**6.3**
Dow Jones	**10,468**	**2.7**	**2.7**

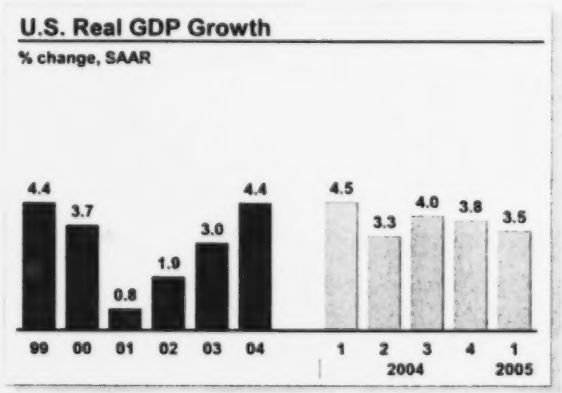
U.S. Economic Trends

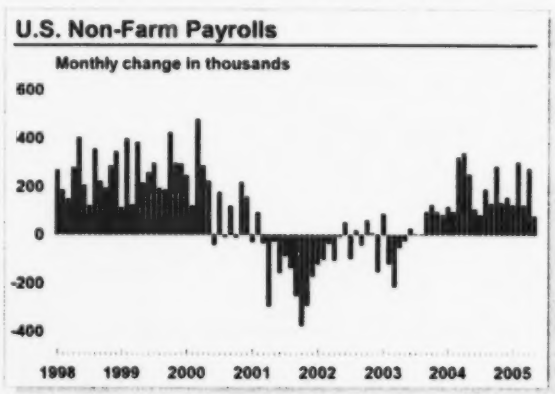
The U.S. economy grew 3.5% in the first quarter...

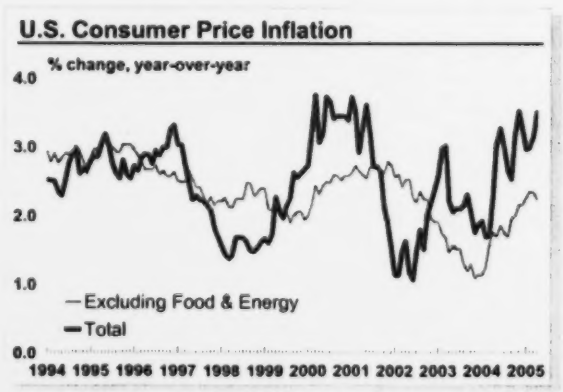
- First quarter real GDP was revised upward to 3.5% from 3.1%, helped by a downward revision to imports. The strong gain in the first quarter follows an increase of 3.8% in real GDP in the fourth quarter of 2004. The increase in economic activity was supported by ongoing solid growth in consumer spending, albeit at a slower pace, a build-up in business inventory investment, and stronger growth in exports. Real personal disposable income declined 1.2% in the first quarter; however, this comes on the heel of a 10.8% jump in the previous quarter, boosted by a special dividend payment by Microsoft.

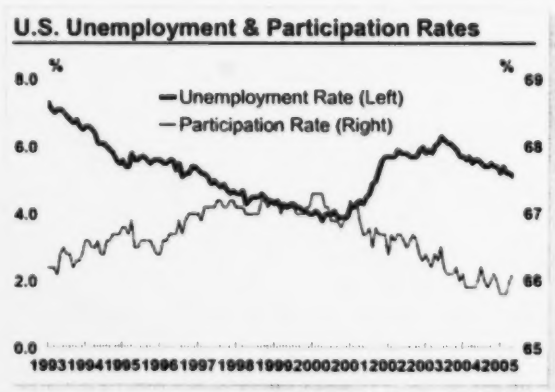
...and should continue to grow strongly in the second quarter

- Non-farm employment rose by 78,000 in May, the smallest increase in six months, after increasing by 274,000 in April. Assuming no growth in June, employment would increase by 1.1% in the second quarter, less than the 1.7% gain in the first quarter. The unemployment rate edged down to 5.1% from 5.2% in April.
- The Institute of Supply and Management (ISM) manufacturing index was 51.4 in May, down 1.9 points from April, the sixth consecutive decline. Nevertheless, the index remained above 50, indicating that the manufacturing sector continued to expand.
- Industrial production rebounded by 0.4% from the 0.3% decline in April. The capacity utilization rate also rebounded, rising 0.3 percentage point to 79.4%.
- Privately-owned housing starts rebounded by 0.2% in May. However, in April and May, housing starts averaged 3.6% below the first quarter average. In May, building permits fell by 4.6%, suggesting weaker new housing activity in the coming months.
- The June Consensus Forecasts expect a rise of 3.2% (annual rate) in real GDP in the second quarter.









Source: U.S. Bureau of Economic Analysis & U.S. Bureau of Labor Statistics

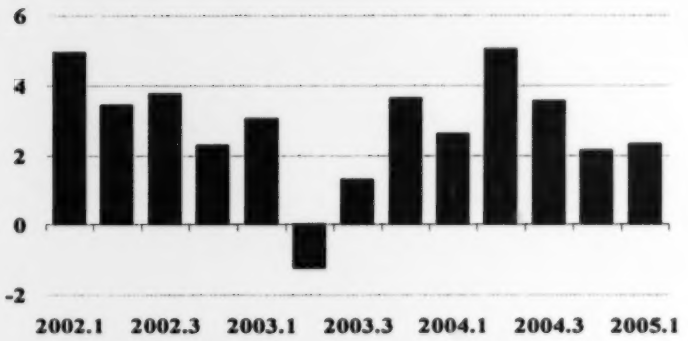
Special Report

National Accounts: Canada's Economic Situation First Quarter of 2005

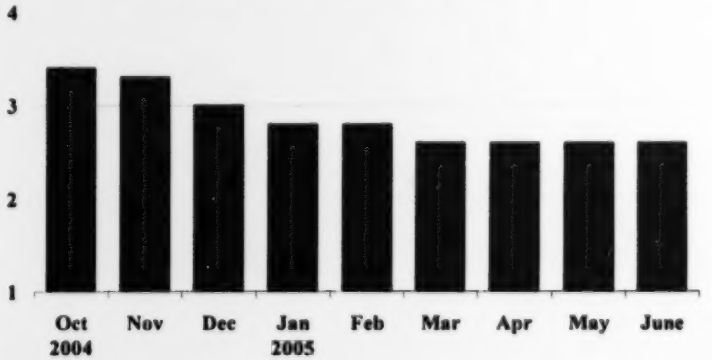
Growth increased slightly in the first quarter…

- Real GDP grew 2.3% in the first quarter, up modestly from the 2.1% gain in the previous quarter. Growth in 2004 was revised up to 2.9% from 2.8%.
- The latest Consensus Forecasts anticipate a rise of 2.0% in real GDP in the second quarter.
- In previous Consensus Forecasts surveys, the 2005 outlook has been downwardly revised from 3.3% last October to 2.6% in June, largely reflecting the lagged effects of the dollar appreciation.
- The Federal Budget forecast for 2005 real GDP growth is 2.9%. Both IMF and OECD are predicting growth of 2.8%.

Growth in Real GDP
(%, annual rates)



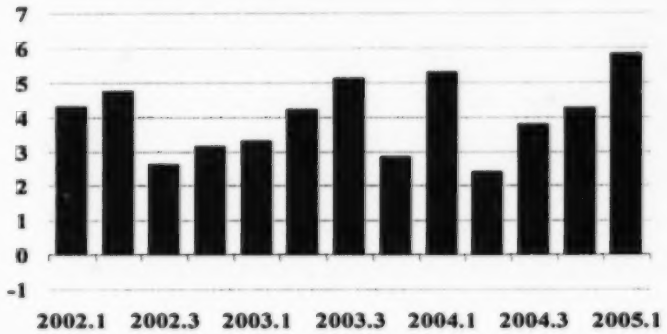
Evolution of Consensus Forecasts for 2005 Real GDP growth (%)



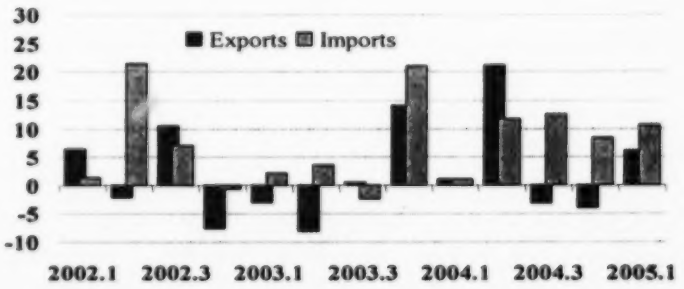
...driven by stronger domestic demand and a rebound in exports

- Real final domestic demand, notably consumer spending and investment in machinery and equipment, was the main contributor to growth in the first quarter.
- Stronger domestic demand led to stronger import growth in the first quarter.
- Real exports rebounded significantly after two quarters of decline. Exports of energy products, machinery and equipment, and industrial goods and materials contributed the most to export growth.
- In the U.S., real GDP growth remained strong in the first quarter at 3.5% (preliminary estimate), compared to 3.8% in the previous quarter. Growth in the U.S. has been higher than in Canada for the last four quarters.

Growth in Final Domestic Demand
(%, annual rates)



Growth in Exports and Imports*
(%, annual rates)

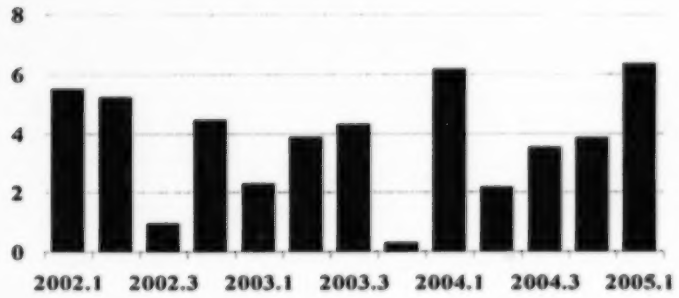


*Goods and services

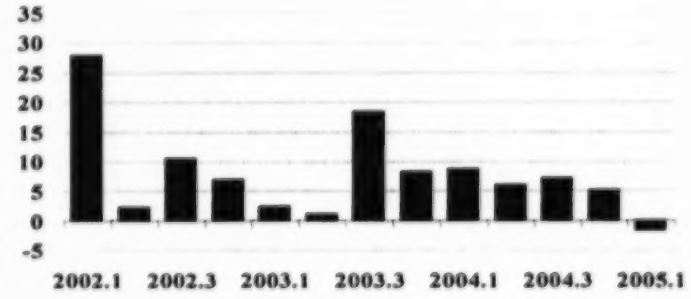
Consumer spending was a key contributor to growth in domestic demand…

- Growth in real consumer spending on goods and services strengthened sharply to 6.3% in the first quarter. This was led by over 10% growth in purchases of durables and semi-durable goods.
- The stronger increase in consumer spending relative to disposable income resulted for the first time on record in a negative personal saving rate (0.6%) in the first quarter.
- Real residential investment fell by 1.7% in the first quarter after six very strong quarterly gains. The decline was attributable to lower new housing construction. In the first quarter, housing starts in all areas fell by 34.2% to 213,400. Nevertheless, new housing activity still remains at high levels, supported by low mortgage rates, rising income, and solid consumer confidence.

Growth in Consumer Spending
(%, annual rates)



Growth in Residential Investment
(%, annual rates)



...supported by strong gains in disposable income, low interest rates, solid job creation...

Real Disposable Income Per Capita

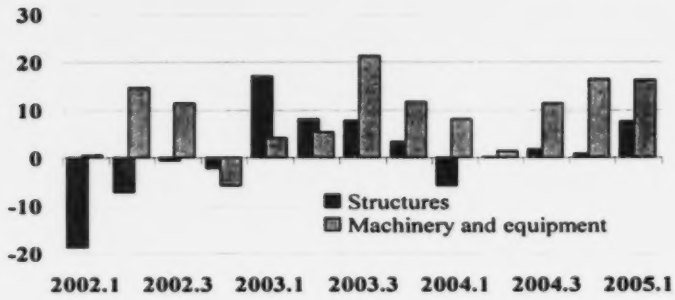
(in thousand of dollars)

...and healthy consumer confidence

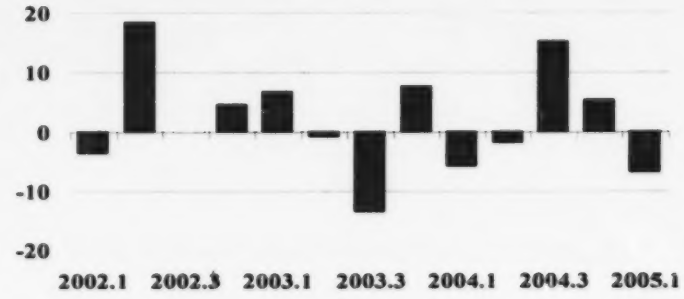
Business investment growth, notably in machinery and equipment, has strengthened significantly...

- Real business investment in non-residential structures grew by 7.5% after very modest gains in the previous three quarters.
- Real investment in machinery and equipment continued to grow at a robust pace (16.3%) in the first quarter. The strong gain augurs well for future productivity growth.
- Real business inventories increased at a slower pace in the first quarter, rising by $15.8 billion compared to an increase of $22.7 billion in the previous quarter. As a result, inventories subtracted about 2 percentage points from growth in the first quarter.

Growth in Non-Residential Investment
(%, annual rates)



Business Investment in Inventories
(annualized change, $1997 billions)



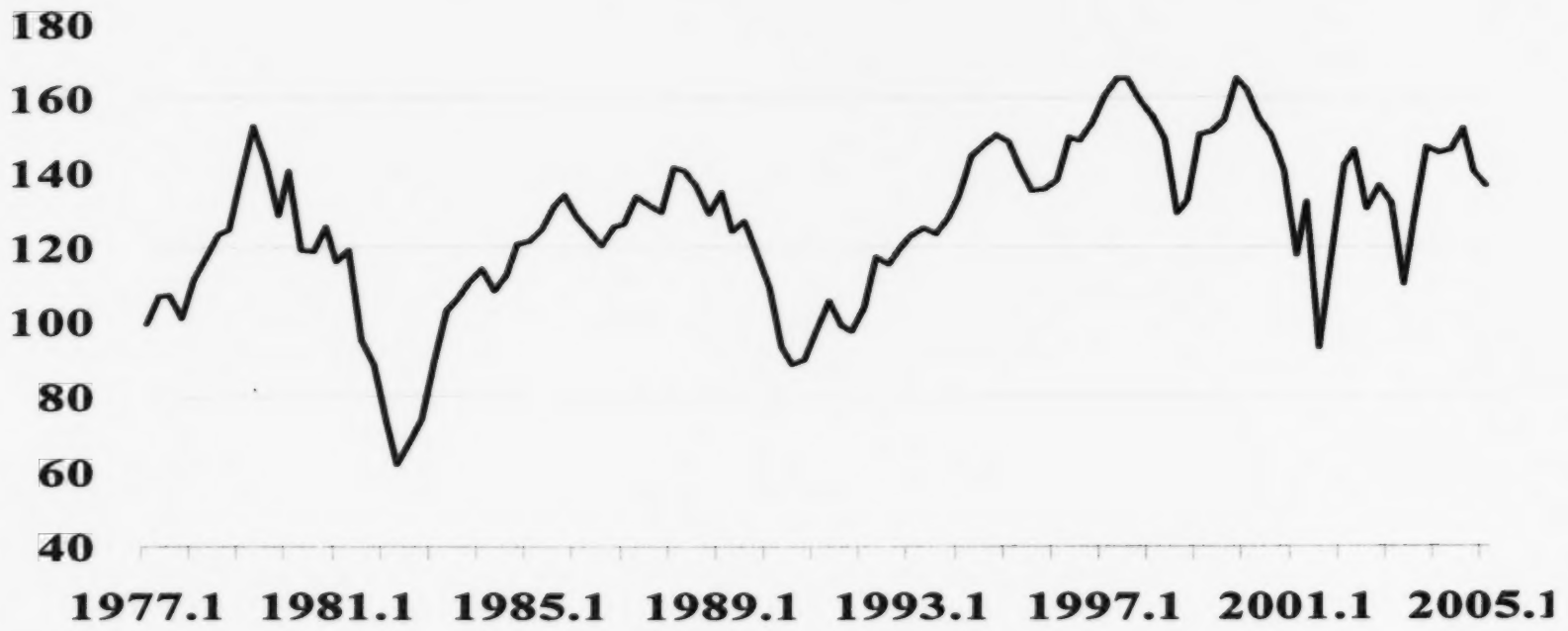
...supported by record before-tax corporate profits...

Before-Tax Corporate Profits
(as a share of GDP)

...and strong business confidence in the economic environment

Business Confidence

(index 1991 = 100)



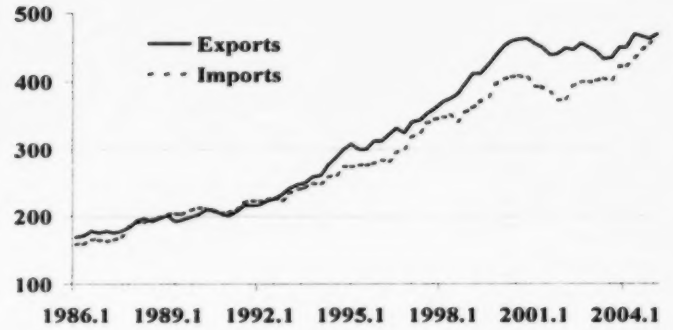
The Canadian dollar appreciation led to a substantial reduction in real net exports

- Real exports rebounded by 5.9% in the first quarter, due to a recovery in exports of goods and stronger growth in exports of services. Among the goods sector, substantial gains were recorded in exports of energy products, machinery and equipment, and industrial goods and materials.

- The rate of increase in real imports picked up to 10.6% in the first quarter, led by a substantial gain in goods imports, notably machinery and equipment. Growth in services import weakened sharply to 7.9%.

- As a result, the real net trade balance continued to shrink in the first quarter, down to $1.6 billion, its the lowest level since the third quarter of 1992. The deterioration in the trade balance primarily reflects the substantial appreciation of the Canadian dollar in the past few years.

Real Exports and Imports
($1997 billions)



Real Net Exports and Canada-U.S. Exchange Rate*

* A decline in the exchange rate means an appreciation

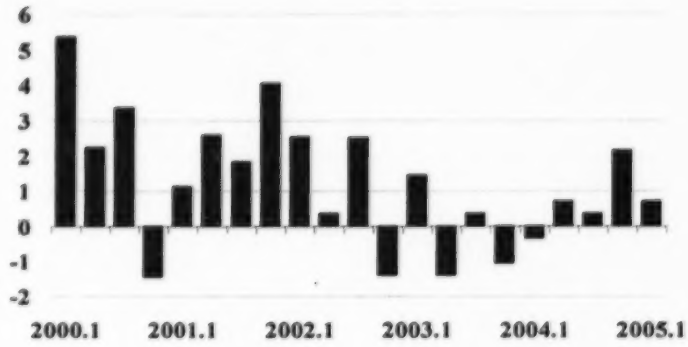
Special Report

Labour Productivity in the Business Sector: First Quarter of 2005

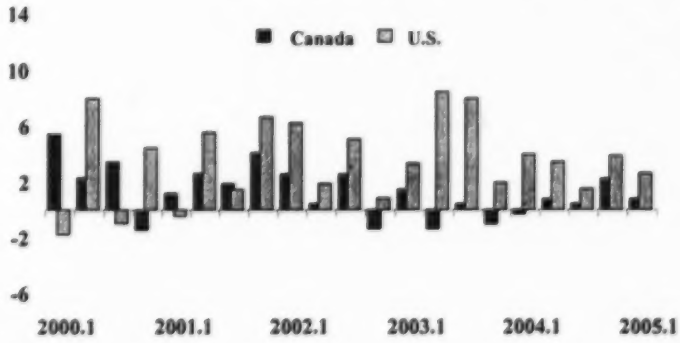
Labour productivity growth remained modest in the first quarter and still below that of the U.S.

- Growth in labour productivity in the business sector in Canada moderated to an annualized rate of 0.7% in the first quarter of 2005 from 2.1% in the previous quarter. The moderation was attributable to an increase in growth in the number of hours worked as output growth remained stable.
- Labour productivity growth remained well below that of the U.S. for the 14th consecutive quarter, reflecting strong real GDP growth in the U.S. In the U.S., growth in labour productivity in the business sector slowed but still remained solid at 2.6% in the first quarter.
- Strong growth, averaging 15% in the past three quarters, in machinery and equipment investment bodes well for labour productivity growth in Canada.

Growth of Labour Productivity
(% change at annual rates)



Growth of Labour Productivity: Canada versus U.S.
(% change at annual rates)

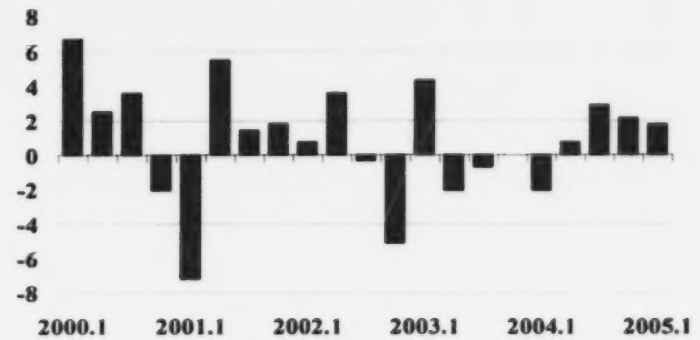


Goods and services sector labour productivity growth weakened in the first quarter

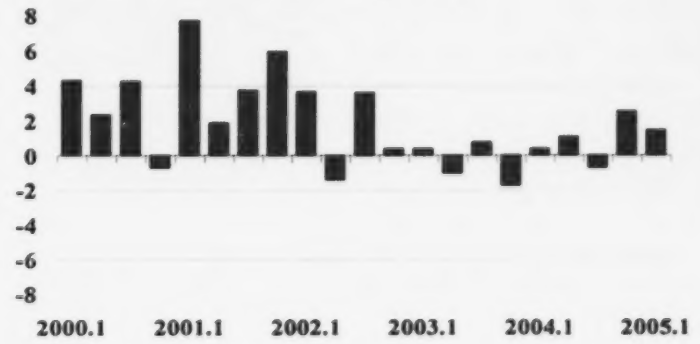
- Labour productivity in the goods sector grew by 1.8% (annual rate) in the first quarter of 2005 down from 2.1% growth in the previous quarter. The manufacturing sector maintained its posting labour productivity growth of 3.5% after average gains of 7.0% in the previous two quarters.

- In the services sector, labour productivity grew by 1.4% in the first quarter, down from the previous quarter. On average, the rate of increase in labour productivity in the services sector has been fairly flat in the past eight quarters.

Growth of Labour Productivity: Goods Sector
(% change at annual rates)



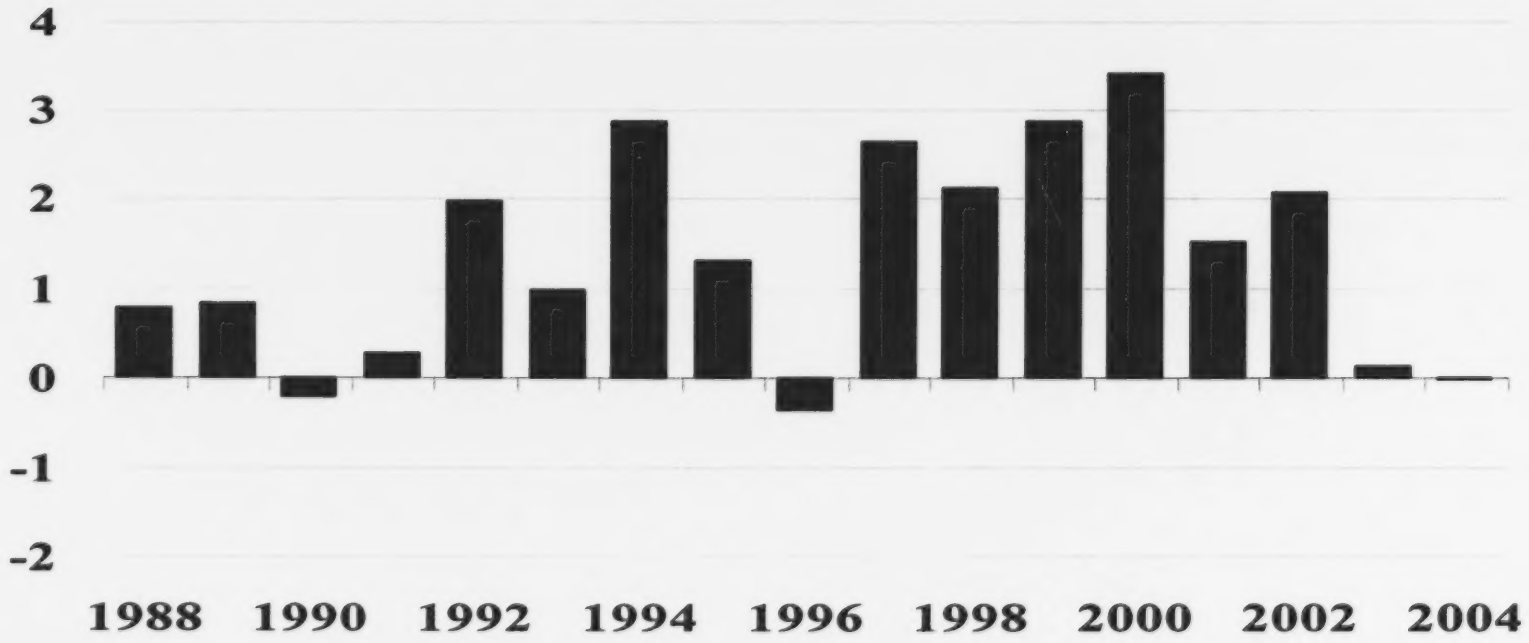
Growth of Labour Productivity: Services Sector
(% change at annual rates)



Labour productivity growth in Canada was almost flat in 2003 and 2004...

Annual Labour Productivity Growth in the Business Sector

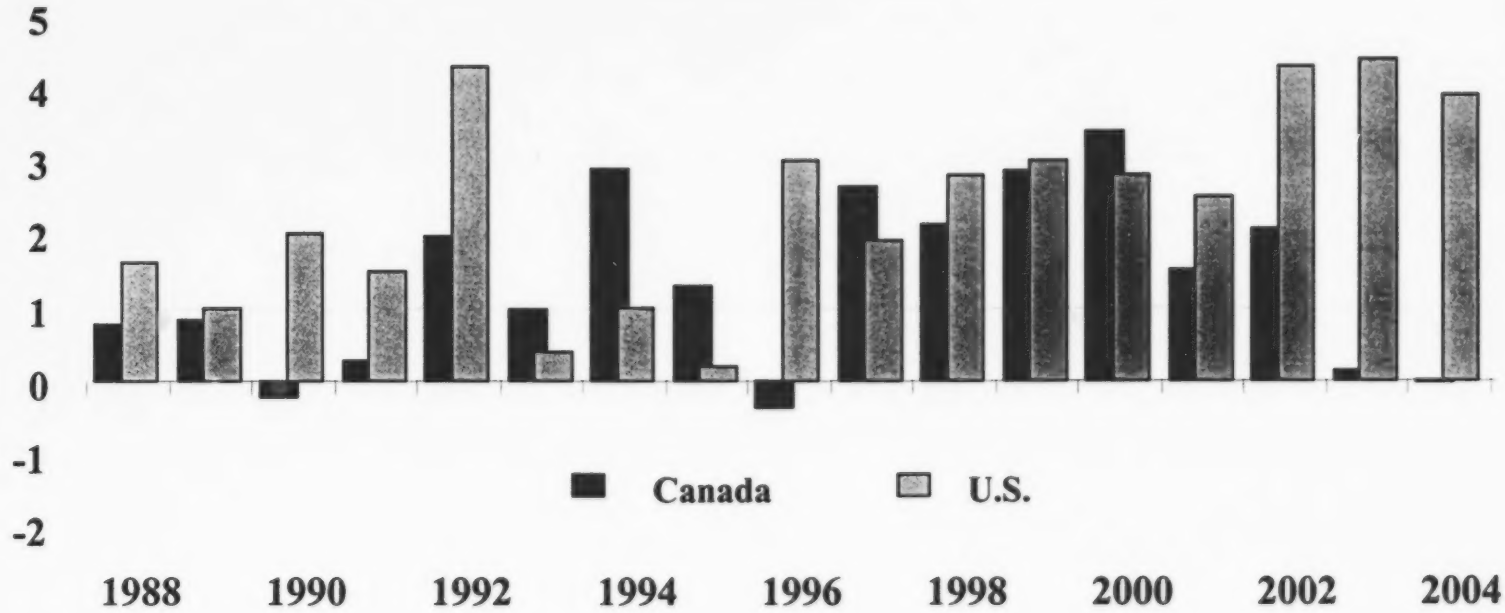
(% change)



...and has been well below that of the U.S. in the past four years

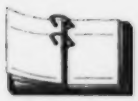
Annual Labour Productivity Growth in the Business Sector: Canada versus U.S.

(% change)



COMING UP

Key Future Data Releases and Planned Events



CANADA

Consumer Price Index - May	June 24
Real GDP by Industry - April	June 30
Labour Force Survey - June	July 8
Key Policy Interest Rate Announcement	July 12
Canadian International Merchandise Trade - May	July 13
Monthly Survey of Manufacturing - May	July 14
Financial Statistics for Enterprises - 2nd Quarter 2005	August 25
Balance of International Payments - 2nd Quarter 2005	August 30
National Economic and Financial Accounts - 2nd Quarter 2005	August 31

UNITED STATES

GDP - 1st Quarter 2005 (final)	June 29
Federal Open Market Committee Meeting	June 29/30
The Employment Situation - June	July 8
International Trade in Goods and Services - May	July 13
Consumer Price Index - June	July 14

Note: The June 2005 MEI uses data available as of June 15, 2005